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Newfoundland and Labrador

# REPORT OF THE AUDITOR GENERAL
(Summary)

To the House of Assembly

for the Year Ended
31 March 2000

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## Preface

This document is presented as a summary of the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2000*. That Report contains approximately 400 pages of conclusions, commentary, recommendations and auditees' comments. When readers identify a topic of interest, we encourage them to read the relevant section in the Report. This document contains information on the items reported in Chapters 1 through 4 and are numbered to coincide with the Report.

## Introduction

The *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2000* was prepared in compliance with Section 12 of the *Auditor General Act*. Section 12 requires that the Report outline significant matters noted during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in our opinion, should be brought to the attention of the House of Assembly.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2000*. Therefore, along with this Summary, two reports are tabled before the House of Assembly.

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## Chapter 1

### Auditor General's Overview

This chapter provides an introduction to the *Report of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Year Ended 31 March 2000*.

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## Chapter 2

### 2.1 Public Sector Accountability

In my previous Reports to the House of Assembly, I expressed concern over the lack of information being provided to the House of Assembly by agencies of the Crown and Memorial University of Newfoundland (the University) which are funded primarily by the public purse. Operating grants paid to hospitals, school boards, other agencies of the Crown and the University by government departments are included in total funding approved for each department by the House of Assembly as part of the annual budgetary process. Having approved this funding, the House of Assembly should then receive information on how this public money was used and what the funding has achieved.

I have recommended the implementation of a legislated accountability framework for all public sector entities in the Province, including government departments, all agencies of the Crown and the University. I have also recommended that the framework include a strategic and operational planning process, clearly defined objectives, measurement criteria, a financial budget and a reporting system which provides appropriate information at various levels. The reporting process should include a report to the House of Assembly.

Of the 82 Crown agencies, only 4 entities receiving $175.5 million had their reports tabled in the House of Assembly. These four entities received only $175.5 million of total funding of $1.668 billion provided to various Crown agencies. There were no reports tabled in the House of Assembly which related to the remaining $1.493 billion.

While I am pleased to see that some action has been taken towards developing a framework of accountability, I am extremely concerned with the current state of affairs. I have two concerns:

- The present initiatives for government departments, Crown agencies and Memorial University, are not legislated. With respect to the initiatives for Crown agencies and Memorial University, they are not mandatory in that they are at the discretion of the minister responsible.
- None of the plans, information or reports generated under these initiatives are required to be tabled in the House of Assembly.

## Chapter 3

### 3.1 Monitoring Agencies of the Crown

As at 31 March 2000 there were approximately 154 (1999 - 152) agencies of the Crown in the Province. Of these, 84 (1999 - 83) were required to prepare annual financial statements while 70 (1999 - 69) were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 70 entities are included with those of the Government department responsible for the entity and are audited annually as part of our audit of the Public Accounts of the Province.

Of the 84 entities required to prepare annual financial statements, 30 (1999 - 30) were audited by our Office while 53 (1999 - 52) were audited by private sector auditors and 1 has not completed its first year of operations.

Most of the agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires all private sector auditing firms to submit to our Office a copy of the audited financial statements and any management letters for all agencies of the Crown which they audit. These financial statements and management letters along with our Office's audits of agencies of the Crown provide the basis for our monitoring of all agencies of the Crown.

The results of our monitoring activities are presented in Part 3.1 of the *Report of the Auditor General to the House of Assembly for the year ended 31 March 2000.*

### 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments.

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are presented in Part 3.2 of the *Report of the Auditor General to the House of Assembly for the year ended 31 March 2000.*

### 3.3 Government's Results of Financial Operations

The Provincial budget outlines Government's budgeted revenues and expenditures and its surplus or deficit for the fiscal year on a cash basis. Once the year is over, Government reports its actual revenues and expenditures and its surplus or deficit and compares them to what was budgeted.

This year I am again expressing my concern with the manner in which the Government is calculating its surplus or deficit. Specifically, I am concerned about the way Government can "adjust" its actual revenues and expenditures to achieve whatever surplus or deficit it desires, through the use of special warrants or through the deferral of budgeted revenues.

For the 1999-2000 fiscal year, if Government had not issued special warrants in contravention of the *Financial Administration Act* and had received Hydro dividends, sinking funds and guarantee fees in the amounts it had budgeted, it would have reported a cash surplus of $167.1 million rather than a cash deficit of $13.0 million.

### 3.4 Special Warrants

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior approval of the Members of the House of Assembly, spend public money. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government.

There were 7 special warrants totalling $70.8 million issued in the 1999-2000 all of which were issued in March 2000. All of these special warrants were, in my opinion, issued in contravention of the *Financial Administration Act* in that they were not urgently required and the House of Assembly was in session when the funds were distributed.

The issuance of special warrants along with other mechanisms provide Government with the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result closer to that originally budgeted on the cash basis.

### 3.5 Accounts and Loans Receivable in Government

Our review of Government departments indicated that a significant portion of their accounts receivable are in arrears. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

In addition to not collecting amounts owed to it on a timely basis, Government has written off significant amounts owed to it.

In May 1999 Government introduced the accounts receivable function of its accounting system. Government anticipates that this system will improve its recording, controlling and monitoring of accounts receivable. Our work during the current year disclosed that as at 31 March 2000 the accounts receivable system had not been fully implemented in the departments of Executive Council, Health and Community Services, and Works, Services and Transportation.

### 3.6 Steelcor Industries Incorporated

Steelcor Industries Incorporated, a precision machine shop in the Town of Buchans, is 51% owned by the Province. The Province initially became involved with Steelcor in December 1989 when Enterprise Newfoundland and Labrador Corporation's (ENL) predecessor, the Newfoundland and Labrador Development Corporation, approved funding of $100,000 in the form of a $1 equity investment in the common shares of Steelcor and a $99,999 convertible shareholder's loan.

Since Steelcor commenced business in 1989, the Province has advanced $3.119 million to the Corporation. As of September 2000, the Province has only recovered $313,000.

ENL files indicate that no private investment has been put into the company since ENL became the prime source of financing for Steelcor in 1993. Since 1997 ENL has been negotiating the divestiture of its ownership interest in Steelcor with various parties. Various divestiture plans have been put forth with little success.

### 3.7 Picadilly Plastic Incorporated

Picadilly Plastic Incorporated operates a plastic thermoforming business on the Port au Port Peninsula on the West Coast of the Province. The Province initially became involved in Picadilly Plastic in June 1995. Since then, the Province has advanced $1.279 million to the company of which $1.029 million was provided by ENL and $250,000 was provided by the Newfoundland Industrial Development Corporation (NIDC).

While the amount owed to ENL by Picadilly Plastic has been written off, the $250,000 owed to NIDC is still outstanding. The company has been shut down since April 2000 and the $250,000 owed to NIDC is doubtful of collection.

### 3.8 Loan Guarantees - Department of Development and Rural Renewal

Between 1997 and 2000 there were $3.055 million in loan guarantees being managed by the Department of Development and Rural Renewal. These loan guarantees were provided to 11 companies. We reviewed loan guarantees totalling $2.555 million for 10 of the 11 companies. The remaining guarantee for $500,000 to BPS Imaging Partnership was audited and reported on in my 1999 Annual Report.

Of the $2.555 million in loan guarantees reviewed, Government paid out $1.675 million and $180,000 expired, leaving outstanding loan guarantees of $700,000 as of 31 March 2000. In one case, the Department recovered $150,000 from the sales proceeds of certain secured assets.

Our review of ten loan guarantees in place at the Department of Development and Rural Renewal indicated the following:

- Four instances were noted where security that was taken was insufficient to cover the loan guarantee, or security the Department originally had in place was subordinated in favour of other interests.

- Loan guarantee agreements may include a restriction on the amount of remuneration that the companies can pay to their shareholders and directors. However, information on the remuneration paid was not always apparent from the financial information submitted to the Department.

  In one case where information was available, the company contravened the provisions contained in the loan guarantee agreement by paying dividends of $95,800, and shareholders' advances and management wages which were $60,000 in excess of the amount authorized in the guarantee agreement. In October 1998, this issue was brought to the attention of the company. However, there is no further information on file indicating that the Department followed up on this issue, whether excess amounts were returned to the company, and that no further excess payments were made to management and shareholders.

- Under the terms and conditions of their guarantee, some companies were required to submit internally prepared financial statements on a monthly basis, but this did not occur. All companies were required to submit annual financial statements; however, the files did not always contain the required annual financial statements.

- Companies are required to maintain insurance on assets that have been pledged as security for the loan guarantee. In one instance, we were unable to locate any documentation to show that the company had maintained insurance and had provided proof of such insurance to the Department.

- Guarantees were provided to three companies even though those companies were in arrears on loans with the Department. In two of these cases, the Department was required to honour the guarantees. In the other case, the loan guarantee is still outstanding.

- In January 1999, the Department wrote off loans totalling approximately $1.2 million for one company which included the pay out of a loan guarantee of $425,000. Although the Department had a charge on the company's assets, it did not realize on its security.

  In December 1998, Cabinet authorized a Crown corporation, the Newfoundland Industrial Development Corporation (NIDC), to provide this same company with a grant of $105,000 and a loan of $250,000. The $250,000 term loan provided by NIDC is interest and payment free for the first three years. After this three year period, the loan is to be repaid over seven years and will bear an interest rate of 8.75%. NIDC has taken a security position on the same assets which the company used as security for the loan provided by the Department and which was written off.

- As a result of a financial restructuring, the Department has a 51% voting control of one of the companies. By holding 51% of the outstanding voting shares the company meets the definition of a Crown controlled corporation for purposes of the *Auditor General Act*.

### 3.9 College of the North Atlantic

In 1996, Government announced that it was reorganizing the college system and consolidating the five colleges existing at that time into one college now known as the College of the North Atlantic. The objectives of the reorganization were outlined by the Minister of Education at that time. In addition, the 1996 Budget Speech stated that "the consolidation of the administration of the five existing colleges into one single College is expected to save $3.5 million in 1996-97." The financial analysis prepared by the College indicated that administrative expenses decreased from approximately $20.9 million in 1995-96 to $16.7 million in 1997-98. However, administrative expenses have since increased from the $16.7 million in 1997-98 to $21.8 million in 1999-00.

From the establishment of the one college system in 1997 to 31 March 1999, there was a significant decline in the cash and working capital position of the College. As at 31 March 1997, which was the last year that the five colleges were required to report their financial positions separately, they had combined cash of $3.0 million and working capital of $1.3 million. As at 31 March 1999 the College of the North Atlantic, which is comprised of the five former colleges, had a cash deficiency of $2.4 million and a working capital deficiency of $1.2 million. However, in 1999-00, the Department of Education provided the College with an additional $5.0 million in grant-in-aid and, as a result, the cash position and working capital improved as at 31 March 2000.

Our review of the College of the North Atlantic indicated the following:

- The level of funding provided by the Department each year is based, for the most part, on the level of funding provided in previous years. The funding is not linked to the College's performance, the number of students, or the College's Strategic Plan but is based on the historical levels of funding adjusted for new, modified, or discontinued programs. Since funding is not linked to the College's performance or other outcomes, the current funding arrangement does not ensure that the College is operating efficiently.

- The College has $48 million in furniture and equipment. There are significant weaknesses in the controls over these assets as the College does not know what comprises the $48 million.

  The College has commenced itemizing these assets; however, they have not made as much progress as they had initially anticipated. The College's review of assets at several campuses has identified a number of problems including missing computers and other equipment. Our review also identified equipment that was missing or was scrapped without documentation to support this.

- At the time of our review, the College owned or leased 49 vehicles. The College spends approximately $180,000 annually to operate these vehicles. These vehicles and their operating costs are not being monitored. Furthermore, the College does not control and monitor usage of its 48 credit cards used for fueling its vehicles.

  At the time of our review the College did not have a current listing of their vehicles or their usage. The College also paid duplicate insurance premiums on some vehicles and paid insurance premiums on vehicles that they had scrapped or returned under lease agreements.

- The College is not always complying with *the Public Tender Act*. For example:

  - the *Act* requires that three quotes be obtained for purchases estimated to cost less than $10,000. This is not always done.

  - the *Act* requires that tenders be publicly advertised for purchases estimated to cost more than $10,000. This is not always done.

  - the *Act* does allow tenders not to be called for some purchases estimated to cost more than $10,000 if certain conditions, as defined in the *Act*, are met. However, these exceptions must be tabled in the House of Assembly and publicly disclosed. This is not always done.

  In addition, we identified a number of instances where the request for quotes or the public tender specified a specific make and/or model number. This is not within the spirit and intent of the *Act*.

- Travel expenditures in 1999-2000 totalled $1.7 million. The College has serious problems in the processing and payment of travel expenditures. Our review identified expenses which were paid twice, payments for personal items, payments which were not adequately supported and unauthorized entertainment expenses. In addition, the College's internal auditors issued a report in 1998 identifying a number of areas for improvement, including conference calls in lieu of meetings and reducing the rental of vehicles.

- At the time of our audit, the College had 93 cellular phones. Costs have been increasing over each of the past three years and total expenditures for this period are approximately $130,000. There is no monitoring of College cellular phone costs and there are no policies on the acquisition and administration of cellular phones.

- In September 1998, the College took over four programs from the Newfoundland Career Academy: Avionics Technician, Dental Assistant, Massage Therapist, and Professional Pilot. Up to July 2000, the College spent approximately $5.0 million on these four programs. Of particular concern were issues relating to two of the programs as follows:

  - Dental equipment was purchased in December 1998 through the Career Academy's trustee for $159,850 for the Dental Assistant program. In May 1999, just six months later, the equipment was sold for $57,557, a loss of $102,293.

  - Of the $2.9 million spent to complete the training of the students in the Professional Pilot program, approximately $2.1 million was paid to one company for flight training of the students without going to public tender.

  - The Memorandum of Understanding required a payment of $1.44 million over the life of the 15 month agreement for 12,000 hours of flying lessons. In accordance with the agreement, the payment for the 12,000 hours was to be made regardless of the actual usage. Our review of how many hours were actually used as per invoices up to January 2000 indicated that only 7,270 hours of flight time was used, a shortage of 4,730 hours. Therefore, the College paid $567,600 for hours which were not used by the students.

- The single biggest expenditure for the College is salaries and employee benefits. Salaries and employee benefits totaled $55.0 million for the 1998-99 fiscal year. Of the $55.0 million, $47.8 million related to general operating salaries and $7.2 million related to salaries for contract training and special projects.

  Our review indicated that expenditures for salary and employee benefits decreased subsequent to the reorganization in 1997; however, it has been increasing for the two years subsequent. In addition, officials at the College indicated that the number of permanent positions have also increased.

  At the present time, the College does not have a salary position and monitoring system to indicate the approved positions within the College and the status and salaries of these positions. Until the College rationalizes the number of employees it requires, and the duties and qualifications of those employees, it does not know how many employees it needs to operate the College and deliver its programs. A

> salary position and monitoring system is necessary for an organization as large as the College so that the number of positions can be controlled. In addition, such a system is necessary to establish and control the salary budget of the College. Since the College is funded by the Department of Education, a salary position and monitoring system would be mutually beneficial.

### 3.10 School Boards

As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. The number of schools and student enrolment have declined by 23% and 15% respectively, in the past four years.

Our review of school board financial statements disclosed that 7 of the 11 school boards had bank indebtedness totalling $4.024 million as at 30 June 2000 to finance board deficits and other expenditures. Seven of the 11 school boards had accumulated deficits of $3.873 million from operations excluding severance pay accruals.

Our review of the financial position of the 11 school boards identified that their accumulated operating positions declined by $5.603 million during 1999-2000.

Using 1995-96 as the base year which was the last full year that the former 27 school boards operated, school board provincial revenues have declined by $27.8 million, comprised of $14.1 million in teaching services grants and $13.7 million in other revenues. The total revenue per pupil increased by 11% from $4,796 in 1995-96 to $5,311 in 1999-00.

Using 1995-96 again as the base year which was the last full year that the former 27 school boards operated, school board expenditures declined by $23.5 million, comprised of $15.6 million in instructional, $5.2 million in administration, and $2.7 million in other expenditures. Expenditure on instruction per pupil increased by 13% from $3,841 in 1995-96 to $4,349 in 1999-00.

### 3.11 Workplace Health, Safety and Compensation Commission

The Workplace Health, Safety and Compensation Commission was established in 1951. The Commission is responsible for administering programs for the payment of benefits to injured workers and dependants, rehabilitation of injured workers, setting rates and collecting employer assessments, and making investments necessary to ensure adequate funding for services. In 1998, the Commission's mandate was expanded to include the Occupational Health and Safety Programs Division of the Department of Environment and Labour. The Commission is governed by a ten member Board appointed by the Lieutenant-Governor in Council and reports to the House of Assembly through the Minister of Environment and Labour.

Prior to 1984, the Commission had a disability system in place which compensated injured workers based upon the nature of their disability. In 1984, the Commission implemented a wage loss system which compensated workers on an ongoing basis for their loss of income from a disability.

Initially, the Commission found that, due to a lack of historical claim information, it was not able to reasonably estimate the future costs associated with injuries which had already occurred. However, actuarial studies carried out estimated the future liabilities of the Commission including the portion of the future liabilities for which there was no funding. This is referred to as the "unfunded liability."

In 1991, the unfunded liability of the Workplace Health, Safety and Compensation Commission reached $176 million. In that same year, the Commission prepared a financial strategy to address the problem of the increasing unfunded liability. From that time until 1997, the unfunded liability of the Commission had been decreasing. In 1998, the unfunded liability increased but was still in line with the financial strategy prepared in 1991.

The Commission's 1999 Annual Report indicated that the unfunded liability had increased significantly from $111 million as at 31 December 1998 to $180 million as at 31 December 1999. As a result, the Commission's unfunded liability as at 31 December 1999 approximates the unfunded liability as at 31 December 1991, when the Commission prepared its strategy to address the problem.

### 3.12 Marble Mountain Condominium Project

The Provincial Government has invested directly and through Federal/Provincial cost shared agreements $27.0 million in the Marble Mountain resort area as at 30 April 2000. Included in this $27.0 million are expenditures of $3.1 million for the construction of 31 condominium units which were completed in January 1999. These condominiums have square footage ranging from 311 square feet to 918 square feet. In addition to the $27.0 million invested by the Provincial Government, an additional $10.4 million has been provided by the Federal Government. As of October 2000, none of the 31 units have been sold. Commencing in July 2000, the condominiums were available to be rented on a daily basis.

The 31 condominiums were constructed and marketed in 1998 yet no new marketing surveys were conducted subsequent to 1994. The market survey carried out in 1994 indicated that people preferred renting over purchasing. In 1996 only 11 of the condominiums had potential buyers and in 1998 none of the units were pre-sold when the construction was started. Although the market information indicated that there were very few potential buyers for the condominiums, the 31 condominiums were built in 1998 and marketed initially as sales units only. Twenty-five of the units are furnished or partially furnished while the remaining six are unfurnished.

One of the objectives in building the condominiums was to increase the viability of the Marble Mountain area and eventually reduce or eliminate the need for operating and capital grants from the Provincial Government. However, additional financial assistance from the Province has been required to construct the condominiums and maintain them since none of the units have been sold to date and few have been rented. As a result, Marble Mountain has not been able to operate without the assistance of Government. For example, before Government assistance the Corporation has shown a deficit in each year since 1993. These annual operating deficits have ranged from $92,000 to $875,000 and do not include depreciation on the Corporation's assets. Furthermore, revenues from operations are also decreasing since skier visits have declined from 79,000 in 1995 to 53,000 in 2000.

### 3.13 Loan Guarantees - Department of Finance

For the period 1996 to 2000, Government's loan guarantee program has resulted in the payout or assumption of debt in excess of approximately $114 million, of which $95 million related to Crown corporations and $19 million related to private companies. Of the $114 million, $4.9 million was recovered from four Crown corporations relating to the sale of four middle distance fishing vessels. Government's involvement with these vessels resulted in costs totalling $35.6 million in guarantee payouts and other related costs. A total of $12,700 was also recovered through realization of security Government had in place for a $73,000 payout on a loan guarantee.

The most significant changes occurred between 1998 and 1999 and between 1999 and 2000. The decrease in the total amount guaranteed between 1998 and 1999 is primarily due to the assumption of $70.9 million in debt resulting from the divestiture of Newfoundland Ocean Enterprises Limited and $10.2 million in debt resulting from the divestiture of Newfoundland Farm Products Corporation. The increase in the total amount guaranteed between 1999 and 2000 is primarily due to the guarantee of $110 million in debt relating to the Health Care Corporation of St. John's relating to the Corporation's site relocation and renovation project.

As of 31 March 1999 there were loan guarantees to 12 private companies totalling $21.5 million. We reviewed 6 of the12 loan guarantees which accounted for $18.5 million. Our review of these guarantees extended to May 2000.

In 1990, Cabinet established criteria which companies are required to meet before the Province will provide loan guarantee assistance. The Department of Finance developed policies to address these criteria. However, we found that some of the policies are not specific enough. For example the criteria established by Cabinet requires that the company satisfactorily demonstrate that it can be viable over the long term. However, there is nothing in the policies to tell staff how to determine viability. Cabinet also provided that criteria could be waived in cases where there would be significant community impact. Again, there is no guidance in the policies to tell staff what would constitute significant community impact.

Our review also indicated that the criteria established by Cabinet is not always being complied with. For example:

- Three of the six loan guarantees reviewed did not meet the criteria approved by Cabinet. The three companies were not established businesses as required by Cabinet criteria and one of the three companies used its loan guarantee to secure term financing which was not permitted by Cabinet. Of these three guarantees, two resulted in payouts totalling $18 million.

- While Cabinet directed that guarantees normally would not exceed a one year duration, most loan guarantees are being issued without expiry dates. Of the private companies examined which received loan guarantees, the average length of time the company had been in receipt of a loan guarantee was 6.3 years. Two guarantees had been in place for in excess of 10 years with the longest of these two in effect for 13 years. One other guarantee has been outstanding approximately 8 years.

Monitoring of loan guarantees requires improvement. Some of the significant issues identified include:

- Although guarantee agreements require audited financial statements to be submitted, our review of files maintained by the Department indicated that the files did not always contain recent audited financial statements.

- There is no formal mechanism in place to ensure that the financial position of companies receiving loan guarantees is being reviewed on a regular and current basis. The Department's reviews are generally completed when a company's year end financial statements are received. Since this information is not received in a timely manner, significant periods of time may pass between reviews.

- Loan guarantee recipients did not always have appropriate insurance in place as required by the guarantee agreement. There is also no system in place to remind Department of Finance staff when a policy is expiring and thus prompt them to request evidence that insurance coverage is in place.

Corporate and municipal loan guarantees are approved by Cabinet and tabled in the House of Assembly; however, fisheries loan guarantees are approved by the Fisheries Loan Board and are not approved by Cabinet or tabled in the House of Assembly. As at 31 March 2000, fisheries guaranteed bank loans totalled $24.1 million.

Cabinet criteria specifies that security must be available to government on a book value basis to the value of the loan guarantee either through the company or personal guarantees of the principals. Our review indicated that assets taken as security are usually insufficient to cover the loan guarantee and are often subordinated to other creditors. In addition, there is usually no action to realize on security held.

Some recipients of loan guarantees have also received loans and/or equity financing from the Department of Development and Rural Renewal. This increases the Province's total exposure in cases of default. There is no guidance as to when a company would receive a guarantee from the Department of Finance versus the Department of Development and Rural Renewal.

### 3.14 Privatization of Newfoundland Farm Products Corporation

Newfoundland Farm Products Corporation was established in 1963 under the *Farm Products Corporation Act*. As a Provincial Crown corporation, Newfoundland Farm Products Corporation produced a full range of chicken products which were marketed throughout the Province, the Maritimes and central Canada. The Corporation operated two federally inspected abattoir complexes in the Province, one in St. John's and one in Corner Brook.

In 1996, a new Board of Directors was appointed and given the mandate to pursue privatization of the Corporation. In October 1997, the sale of the St. John's processing operation to Integrated Poultry Limited, a consortium of local chicken producers, was concluded.

**Integrated Poultry Limited**

On 17 June 1997, Newfoundland Farm Products Corporation entered into an Agreement of Purchase and Sale with IPL Processing Limited and a Share Purchase Agreement with Integrated Poultry Limited and IPL Processing Limited. These agreements provided for the sale of the St. John's chicken processing operation to IPL Processing Limited effective 4 October 1997.

On 23 February 2000, Integrated Poultry Limited went into receivership and on 9 March 2000, the assets of Integrated Poultry Limited were sold by the Receiver to 10874 Newfoundland Inc. (now known as Country Ribbon Inc.), a company formed by ACA, a chicken processing company situated in Nova Scotia and Atlantic Co-op, a co-operative of chicken producers in Atlantic Canada.

Since 1997, Government has provided financial assistance to Integrated Poultry Limited or incurred expenditures relating to Integrated Poultry Limited of approximately $22.2 million. The $22.2 million does not include either the transfer of a lease for land and buildings or the transfer of equipment of Newfoundland Farm Products Corporation to Integrated Poultry Limited for a nominal value of $1 each.

In addition to the above financial assistance, the following observations were also made with respect to Integrated Poultry Limited:

- During 1999, the Province also provided other loan guarantees in the amount of $1.9 million for certain financing transactions of Integrated Poultry Limited but the related loans were repaid and the loan guarantees cancelled.
- In October of each year, Integrated Poultry Limited was required to remit an annual loan guarantee fee, in the amount of 1% of the outstanding loan guarantee, to the Department of Finance. At the time of the receivership of Integrated Poultry Limited, Government was owed a total of $115,820 in guarantee fees which had been outstanding since October 1999. In preparing its 31 March 2000 financial statements, Government has provided a full allowance for the $115,820.
- During 1998-99, in order for Integrated Poultry Limited to obtain financing, Government relinquished a portion of its security on the assets of Integrated Poultry Limited. The remaining security on the assets was released upon the sale of Integrated Poultry Limited to 10874 Newfoundland Inc.

**Newfoundland Farm Products Corporation**

During the last period of operation in 1997-98 and up until the year ended 31 March 2000, Government has provided financial assistance to Newfoundland Farm Products of approximately $19.6 million.

**Agreement with 10874 Newfoundland Inc.**

On 9 March 2000, the Province, the Newfoundland Chicken Marketing Board, Newfoundland Farm Products Corporation and 10874 Newfoundland Inc. (now known as Country Ribbon Inc.) entered into an agreement regarding certain matters related to the purchase of IPL Production Limited and IPL Processing Limited by 10874 Newfoundland Inc. This Agreement included, among other things, the transfer of quotas and other Government approvals necessary for the Corporation to operate as well as the provision of an environmental indemnity guarantee by Government relating to the Pleasantville and Cochrane Pond sites. The Agreement also covers responsibilities by 10874 Newfoundland Inc., including the provision of a Business Plan to Government and a commitment to invest $3.0 million for capital improvements and to maintain continuously until 9 March 2005, an average employment level, expressed in person years, at not less than 75% of the employment level existing on 9 March 2000.

Government officials have informed us that, where determinable to date, the terms of the Agreement have been complied with. They have also indicated that other provisions, such as employment levels, are not yet measurable. This area will be subject to future audit by this Office.

## 3.15 Land Development Expenditures

The Department of Forest Resources and Agrifoods is responsible for the management of all forest and agricultural activities of the Province. This responsibility is divided into four main programs: executive and administrative support, forest management, wildlife and agricultural development.

Within the agricultural development program the Soils and Land Management Division manages land in the Province through identifying areas suitable for agricultural development and expansion for silviculture initiatives; acting as an intermediary in objections to agricultural development; and mapping farmland and maintaining a database of land and soil information.

In our review of the Department's expenditures for the year ended 31 March 2000, and specifically those under the Land Consolidation Program, we identified expenditures that did not meet the purpose for which the funding was approved by the House of Assembly.

There were no funds approved by the House of Assembly under the Soil and Land Management - Land Development Program against which expenditures of $64,000 for the purchase of three vehicles could properly be charged. As a result, these payments were made contrary to the *Financial Administration Act*.

## 3.16 Inspection and Licensing of Food Premises

The 1998 Annual Report of the Auditor General to the House of Assembly included a report item in Part 3.15 resulting from a review of food premises inspection and licensing activities at the Government Service Centre. The 1998 review disclosed that some food premises were operating without a valid licence and that food premises in the Province were not being inspected the required number of times each year.

On an annual basis, we monitor and update the comments and recommendations included in our previous Annual Reports to the House of Assembly. During our review, it came to our attention that one of the suppliers which provided various meat products to the health care facilities administered by the Health Care Corporation of St. John's was not licensed by the Department of Government Services and Lands as required by the Food Premises Regulations.

Our subsequent review disclosed the following:

- One supplier had been licensed under the Food Premises Regulations in the 1998-1999 licence year but did not have a licence renewal inspection completed for 1999-2000. Furthermore, inspection for the 2000-2001 licence year was not completed until 20 April 2000. This inspection was not completed until after meat products were provided to the Health Care Corporation of St. John's in accordance with the contract. Inspections for this supplier were not completed in accordance with the required frequencies.

- The second supplier was last licensed in the 1998-1999 licence year. In this case, the last renewal inspection completed was in March 1998. As of September 2000, no inspections have been completed since March 1998. Inspections for this supplier were not completed in accordance with the required frequencies.

- The third supplier should have been licensed under the Food Premises Regulations but had not been licenced up to the point of our initial inquiry in March 2000. After receiving our request, an inspector was sent by the Government Service Centre to inspect the supplier's premises. Upon completion of the inspection, it was determined that the premises should have been licensed but had been missed. The company was not licensed until 13 March 2000.

  Officials indicated that the failure to licence the food premises operated by this supplier was an oversight but that the omission should have been detected through routine canvassing of the area by inspectors.

  In completing the licensing inspection, several health hazards were identified by the inspector, with compliance times recorded on the inspection report in which the supplier was to have the identified health hazards corrected. The compliance times ranged from April 2000 to June 2000.

  Our review indicated that there was no follow-up on these identified health hazards by the Government Service Centre to ensure they were corrected within the compliance times noted on the inspection report. As a result of our queries, a follow-up inspection was completed in September 2000 which indicated that the health hazards identified in March 2000 had been rectified; however, two new potential hazards were identified for which no compliance time was provided.

Based on the results of our subsequent review of the licensing of the meat supply contractors by the Department of Government Services and Lands, we are concerned that contracts for the supply of meat products for consumption at the Province's health care facilities are awarded to suppliers who are operating without the required licences and inspections.

### 3.17 Weigh Scales Operations

The Department of Government Services and Lands operates five permanent weigh scale inspection stations in the Province located at intervals along the Trans Canada Highway. These stations are located at Foxtrap, Goobies, Grand Falls-Windsor, Pynn's Brook and Port aux Basques. In addition, there are six two-person inspection teams which provide weigh scale operations along the Province's road system using highway enforcement vehicles and portable weigh scales. Weigh scale inspectors are responsible for commercial vehicle inspection and enforcement activities related to several legislative authorities including the *Highway Traffic Act* and the *Dangerous Goods Transportation Act*.

Operation of the Provincial weigh scale inspection stations is designed to monitor vehicles for compliance with various legislated highway safety standards. Vehicles which do not meet these standards pose a risk to both the safety of the public travelling on the Province's highways and to the highway infrastructure itself.

The administration of weigh scales activities is not adequate to ensure that the highway safety objectives of the program are being met. There is no planning process in place to ensure the use of available resources is optimized in addressing these objectives. As well, considerable judgement is exercised by weigh scale inspectors in the performance of their duties in terms of scheduling shifts, the inspection process, enforcement of legislative provisions, and documentation of their work. Compounding this is the fact that supervision of weigh scale operations is lacking and reporting is virtually non-existent. In particular, our review disclosed the following:

- There is no plan available which addresses activities for weigh scale inspectors. The current deployment of permanent inspection stations and portable inspection teams has been in place for several years and there has been no assessment carried out to determine whether current activities are optimal in achieving highway safety objectives.

- While the Department has indicated to the public that the permanent weigh scale inspection stations are open "24 hours per day", this is not the case. The hours during which permanent and portable weigh scale operations are operational contain significant gaps, many of which are predictable and could facilitate the avoidance of enforcement activities. Our review of one of the five permanent weigh scale stations indicated that the station was closed 1,811 hours of a total of 8,784 in 1999-00 or 20% of the total hours in the year. On a daily equivalent basis, this would equate to being closed a total of 75 days during the year. The number of hours closed ranged from 55 hours or 7% of the time in January 2000 to 286 hours or 38% of the time in July 1999.

- There is insufficient guidance to inspectors to assist in the performance of their duties. For example, there is no policy manual to provide direction to weigh scale inspectors. Although numerous memoranda have been prepared over the years, there is no master listing available to ensure the completeness of the memoranda retained by individual inspectors.

- Although a computerized weight measurement system was in place at permanent weigh scale stations visited during the review, considerable discretion is used by inspectors in the use of this system for enforcement purposes. As well, the system does not in itself detect whether a vehicle is over allowable weight limits. The computer system retains a record of the weight for each vehicle being weighed; however, it does not at present have the capability to determine whether the vehicle being weighed is within the permitted weight for its configuration. Accordingly, the system is severely limited in terms of monitoring activities at the weigh scale inspection stations. Also, the system is maintained on computers at the inspection stations that are not currently accessible by the Motor Registration Division for management information purposes.

- Weigh scale inspectors have several options available to them in dealing with instances of non-compliance with authorities identified when weighing commercial vehicles or when completing vehicle inspections. These include a verbal warning, a written warning, or a ticket summons. In addition, weigh scale inspectors may require commercial vehicles to offload a portion of their cargo to reduce weight as necessary. We found that these penalties are not consistently applied by weigh scale inspectors. As a result, this does not provide for consistency of enforcement for all commercial vehicles weighed at the permanent weigh scale stations throughout the Province.

- The legislative requirement which is posted at the permanent weigh scale inspection stations is for all commercial vehicles to stop if they have a gross mass in excess of 4,500 kilograms. In practice, commercial vehicles such as busses which are in excess of the 4,500 kilograms do not adhere to this requirement. As well, in practice, empty commercial vehicles which do exceed the 4,500 kilograms are permitted to by-pass the weigh decks at the permanent weigh scale stations; however, these vehicles are not examined to ensure that they are empty.
- There is no reporting on weigh scale operations to assess whether these operations have contributed to the overall objectives of highway safety enforcement. This is in part due to a lack of available management information which can be used to assess the performance of weigh scale operations.

### 3.18 Hospital Boards

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the eight hospital boards is continuing to weaken despite the injection of deficit reduction funding. In 1998-99, the Province provided the boards with $48.4 million to reduce cumulative deficits to 31 March 1999. In 1999-00, the Province provided an additional $31.3 million in stabilization funding comprised of $17.4 million in base budget stabilization funding and $13.9 million in one-time stabilization funding. Even with this extra funding, the boards still reported current year operating deficits totalling $20.0 million before non-shareable items for the year ended 31 March 2000.

In addition, the eight hospital boards are projecting operating deficits totalling $39.8 million before non-shareable items for 2000-01 fiscal year. This $39.8 million does not include increases in severance and vacation pay which are expected to further increase the deficits. Funding to alleviate these projected deficits has not been approved by the Department of Health and Community Services.

### 3.19 Health and Community Services Boards

On 1 April 1998, Government transferred programs for community services from the Department of Human Resources and Employment to the Department of Health and Community Services. Effective this same date, Government directed that community service programs including Child Welfare, Community and Corrective Services and Family Rehabilitative Services, be integrated and delivered under the health and community services boards.

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western regions. Each of these boards has local offices throughout the Province.

The financial position and operating results of the four health and community services boards remained in poor condition in 1999-00. The total net liabilities of the four boards increased from $800,000 at 31 March 1998, to $7.4 million at 31 March 1999 and further increased to $9.2 million at 31 March 2000.

The operating deficits before non-shareable items in 1999-00 was $2.8 million compared to $3.9 million in

1998-99 after $4.2 million in additional funding was provided by Government. Without this additional funding of $4.2 million, the operating deficits of $2.8 million for the four boards would have increased to $7.0 million.

The 1999-00 operating deficit of $2.8 million indicates a slight improvement compared to the $3.9 million operating deficit incurred in 1998-99, but has deteriorated from 1997-98 when the four boards reported an operating surplus before non-shareable items of $2.2 million. The deterioration of the operating results of the four boards has occurred even though government provided additional funding of $2.3 million in 1998-99 and $4.2 million in 1999-00.

In addition, the four boards are projecting operating deficits totalling $7.8 million for 2000-01. This $7.8 million does not include increases in severance and vacation pay which are expected to further increase the operating deficits. The Department has not committed any additional funding to help fund these operating deficits.

### 3.20 Newfoundland Government Fund Limited

The Newfoundland Government Fund Limited was incorporated on 10 November 1995 under the *Corporations Act* of the Province of Newfoundland. All shares of the Corporation are held by Ministers of the Crown on behalf of the Province. Its affairs are governed by a Board of Directors which is elected by the shareholders of the Corporation.

The Corporation is a Government-administered venture capital fund under the *Immigration Act* (Canada) and Regulations. Under the Canadian Immigrant Investor Program, the Corporation issued an Offering Memorandum in September of 1996 to raise funds from immigrant investors in order to provide loan and equity capital to establish, expand, purchase, maintain or revitalize businesses or commercial ventures in Newfoundland. For the immigrant investors, in addition to earning a nominal return on their capital, their investment in the Corporation helps satisfy a portion of their visa requirements under Canada's Immigrant Investor Program.

The offering was comprised of a number of units each of which represents a $250,000 promissory note bearing interest at the simple rate of 2% per annum. Although each promissory note is repayable in full five years from the date on which 70% of the investor proceeds are invested, or is refundable upon refusal of an investor's Canadian visa application, neither the Government of Canada nor the Government of Newfoundland and Labrador offers any guarantees or assurances of a return on an investor's original investment and neither government is liable for any loss or damages that may be suffered by an investor as a result of the investment. The minimum and maximum amounts of the offering were $3,500,000 (14 units) and $35,000,000 (140 units) respectively.

We updated our 1999 review of the Newfoundland Government Fund Limited in November 2000. Our conclusions are as follows:

The Corporation has taken action to address many of the issues that we raised in previous reports. However, further improvements are required. For example:

- The Corporation has not invested 70% of the $5 million investment proceeds closed in January 2000 (or $3.5 million) in eligible business operations within 9 months after the release of the proceeds from the Escrow Agent. Therefore, the Corporation is not in compliance with the *Immigration Act* (Canada) and Regulations.
- The Corporation had still not exercised its rights as permitted under the Offering Memorandum to have the Escrow Agent enforce the requirement that investors make the minimum required deposit and pay the balance within the required time frame. As well, subscription documents are not being forwarded to the Corporation on the closing dates by the Escrow Agent. Therefore, the Corporation is still not

exercising all of its rights in accordance with the Offering Memorandum.

- The Corporation has not approved the closing of units on a timely basis which results in a loss of interest revenue for the Corporation.

As of November 2000, the Corporation has invested $9.45 million in two eligible projects which involve the construction of health care facilities in Bonne Bay and Fogo Island. The prime consultants have been selected for each project and work on project design and site construction is progressing. The developer has been selected for the Bonne Bay project and once the formal agreements are signed, the Corporation will make a final advance of $3.9 million for a total investment of $8.9 million in the Bonne Bay health care facility.

It is expected that the tender for the developer in the Fogo Island project will be called in spring 2001. The latest estimate of the cost of the Fogo Island health care facility is $8.8 million, however, the final cost will be finalized once the developer is selected.

The total investment in the two eligible projects may be $17.70 million based upon the known cost of the Bonne Bay project and the most recent estimate of the Fogo Island project, which will represent 70% of the proceeds received from 102 investors. The Corporation has already used the proceeds received from 54 investors to fund the first advance for the two projects. Therefore, the Corporation requires that an additional 48 units are available for the final advances to the projects. We were informed by Corporation officials and the Escrow Agent that it is unlikely that the proceeds from 102 units will be available for investment by the Corporation as all visa applications may not be approved. As a result, the Corporation may not have sufficient proceeds to fully fund approved eligible projects.

## 3.21 Royal Newfoundland Constabulary

On 2 December 1997, a Select Committee of the House of Assembly was appointed to enquire into the arming policy of the Royal Newfoundland Constabulary, and report its findings to the House of Assembly by 31 March 1998. As a result of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary, members on operational duty were permitted to wear sidearms commencing 14 June 1998. To provide specific direction to members on the control and usage of firearms, a revised Firearms Policy was also issued at this time. As of September 2000, 581 firearms were maintained by the Royal Newfoundland Constabulary.

One of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary was that a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly. To comply with this recommendation, the Chief of Police again requested my Office to conduct an annual audit of firearms in 2000. In November 2000 we completed our second annual review.

### Control over Firearms and Ammunition

The Royal Newfoundland Constabulary has established policies to provide for the management and control of its firearms and ammunition. In our 1999 review of inventory controls we concluded that, although there were weaknesses in the system, improvements had been made since our review in 1996. Our review in 2000 indicated that there are still weaknesses which require improvement. For example:

- The firearms and ammunition inventory is not accurate. For example, four firearms used for ceremonial purposes were not recorded in the inventory system, a number of firearms were located in a different physical location than that recorded in the inventory system and ammunition recorded in the inventory system did not always agree with the amounts on hand.

- Although the inventory system is a perpetual system (i.e. it is updated on an on-going basis), we determined that required adjustments, including acquisitions, dispositions and internal re-assignments of firearms and ammunition, are not always made on a timely basis. As a result, information on firearms and ammunition inventory is not always accurate and up to date.

**Adequacy and Compliance of the Firearms Policy**

Our review indicated that the Firearms Policy developed by the Royal Newfoundland Constabulary is comparable to that of other Canadian police jurisdictions and covered similar issues pertaining to the use and control of firearms. Our review of compliance with the Firearms Policy indicated that members are not always complying with policy. For example:

- Although policy requires that unloaded firearms be secured in the members personal firearms storage locker at the Royal Newfoundland Constabulary facilities or in other approved locations when the member is not on duty, this is not always done.
- Monthly inspections of service firearms are not being conducted as required by policy.
- In September 2000, the RNC amended its Firearms Policy to require that members store their pepper spray in their firearms locker. During the November 2000 inspection there were a significant number of instances identified where the pepper spray that should have been stored in the firearm storage locker was not. More importantly, it was very apparent that the change in policy that required members to store their pepper spray in their firearms locker was not well communicated to all members.
- A significant number of Royal Newfoundland Constabulary members have not received training in firearms and use of force so far this calendar year as required by policy.

Although Use of Force Reports are required to be prepared by members and reviewed by supervisors to monitor members' compliance with Firearms and Use of Force Policies, Use of Force Reports do not always contain all required information such as member name and type of force used.

In addition, Use of Force Reports are not always submitted to the Use of Force Review Board on a timely basis.

### 3.22 Recruitment Delegation

Section 5 of the *Public Service Commission Act* (the *Act*) provides for the establishment of the Newfoundland Public Service Commission, a three member commission appointed by the Lieutenant-Governor in Council. One of the members of the Commission shall be the Chairperson.

The *Act* requires that the Commission prescribe the standards and procedures for the recruitment and selection of candidates for appointment and promotion within the public service as defined by the *Act*. The *Act* allows the Commission to delegate appointments and promotions to a chief executive officer or Deputy Minister subject to a review by the Commission on an annual basis.

Prior to 1 April 1997, the Public Service Commission was actively involved in the recruitment of staff for the government departments and 5 Crown agencies covered by the *Public Service Commission Act*. With effect from 1 April 1997 and in accordance with the Minute of Council issued in May 1996, the Commission entered into agreements with each entity covered by the *Act* relating to the delegation of recruitment and staffing. The Commission retained responsibility to review the appointments and promotions in these entities. Our review of this area indicated the following:

- Although there are approximately 43,000 employees in the Provincial public sector, the *Public Service Commission Act* applies only to 6,400 employees of Government departments and 5 Crown agencies. Furthermore, since the *Act* only applies to the recruitment of permanent employees and does not apply to the appointment of temporary employees, seasonal employees, and a number of other positions within the public service, only 5,277 of the 8,404 positions in the various departments of government are covered by the *Act*. As a result, the *Act* does not provide for consistency of recruitment within the entire public service.

  The *Public Service Commission Act* was enacted in 1973 and the organizations which fall within the jurisdiction of the Commission were defined at that time. Since 1973 there have been many changes in the organizations which comprise the public service. As a result, all Crown agencies and all positions within the entire public service should be reviewed to determine which ones should fall within the mandate of the Public Service Commission. Recruitment in the public service would be improved if the mandate of the Public Service Commission applied to all positions within the entire public service.

  The Commission is not complying with the *Public Service Commission Act* since it does not conduct annual reviews of the appointments and promotions at government departments and the 5 Crown agencies. Our review also indicated the following weaknesses in the reviews conducted by the Commission:

  - The reviews carried out by the Commission were based on information provided by each department or agency. The Commission did not perform any independent verification procedures to ensure that the information which it had received was complete and accurate relating to all appointments or promotions during the period.

  - The Commission did not retain adequate audit files supporting its work in reviewing appointments and promotions at government departments and the 5 Crown agencies.

  - The Commission is not receiving complete information on all recruitments and promotions occurring in the public service that fall within their responsibility.

- The Commission's work indicated that there are numerous problems in the recruitment process of certain departments and Crown agencies. Our review also indicated that many permanent positions, which fall under the jurisdiction of the Public Service Commission, are not permanently filled in accordance with the *Public Service Commission Act* but rather are occupied by other employees on a temporary basis, often for lengthy periods of time. As a result, these appointments do not fall under the jurisdiction of the Public Service Commission.

Our review also indicated the following:

- At the date of our review, September 2000, legislative amendments to the *Public Service Commission Act* as required by Cabinet Directive MC-96-

0358 dated 22 May 1996, have not been made. These amendments would provide for the transfer of a number of personnel areas from the Public Service Commission to Treasury Board Secretariat. Although the transfer has occurred, there is no legislative authority since the amendments have never been made.

- The Public Service Commission is required by its *Act* to prepare annual reports for tabling in the House of Assembly. The reports of the Public Service Commission for 1996,1997 and 1998 years were not tabled in the House of Assembly within the required time frame. In May 2000, the report of the Commission for the period 1996 to 1999 was tabled in the House of Assembly.

### 3.23 Art Procurement

The Art Procurement Program was established by the Province in 1982 and is administered by the Cultural Affairs Division of the Department of Tourism, Culture and Recreation. The Program's mandate is to acquire original works of art by Newfoundland and Labrador artists for the enrichment and enhancement of public buildings in the Province. In addition, the Program's mandate includes providing support and encouragement for visual artists living and working in Newfoundland and Labrador and contributing to the cultural life of the Province.

Our review indicated serious deficiencies in the management and control of art work acquired under the Art Procurement Program. In particular:

- Our examination of 506 pieces of art work determined that 102 pieces, at a cost of $106,463, could not be accounted for by officials of the Art Procurement Program. An additional 72 pieces of art, at a cost of $119,309, were located either in a different room or building from that identified by the inventory information system. The inventory information system also identified 16 pieces of art work, at a cost of $5,365, as lost.

  There is no process to report and record the movement of art work from its original assigned location. As a result, the information system which identifies the location of art work is not being accurately updated and art work can not always be accounted for.

- The location of acquired art work is not always documented in the information system. Furthermore, some of the art work that is documented in the information system is not recorded on a timely basis. This increases the difficulty of accounting for and adequately controlling this art work.

- Periodic physical counts are not conducted. In addition, no alternate procedures are performed to identify discrepancies between the physical art work and the location of the art work as identified in the information system.

- There is no regular conservation and maintenance process to reduce the risk of damage and deterioration to the collection.

Other observations over the management of art work included the following:

- Documentation with respect to the rationale for individual acquisitions is destroyed within 6 months of acquisition decisions. Authority for the destruction of these public records has not been obtained as required under the *Archives Act*.

- Backup and recovery procedures for the inventory information system are not effective. In addition, controls over access to the inventory information system need improvement.
- There are no policies with respect to physical and accounting controls over art work.

### 3.24 Public Records

The management of public records is an important part of the administration of all entities which make up the public sector of the Province.

Responsibility for records management rests with the Department of Tourism, Culture and Recreation. The *Archives Act* establishes the Provincial Archives of Newfoundland and Labrador and creates the Records Management Branch of the Department of Tourism, Culture and Recreation.

Section 7 of the *Archives Act* creates the Public Records Committee and provides that its duties include establishing and revising disposal schedules for the retention, destruction or transfer of records, and making recommendations to the Minister regarding the disposal of public records that are no longer required by a department or agency.

Section 11 of the *Archives Act* prohibits the destruction or disposal of public records unless authorized by the Minister on the recommendation of the Public Records Committee. Therefore, a department or agency of the Crown must have in place a system of adequate control over, and safe storage of, all records until they have been approved for disposal.

As a result of our work we have concluded that records management in Government is not adequate. For example:

- The Records Management Branch is not providing adequate direction and advice to the majority of agencies of the Crown for the administration of public records as required by the *Archives Act*.
- The Records Management Branch is not disposing of inactive records in a timely manner. Of the 14,000 boxes of inactive records stored at the Records Centre, in excess of 9,500 boxes have passed their planned disposal date.
- Although the Records Management Branch could provide information on the age of the 14,000 boxes of inactive records stored at the Records Centre, it did not have any information available on the status of the 40,000 boxes of records stored in other Government buildings and outside private storage facilities. As a result, there was no information as to how many of the 40,000 boxes of records could be disposed of.
- Discussions with senior officials indicated that information on the number of boxes of records in storage at school boards, health care boards, and the College of the North Atlantic was not readily available. These agencies do not have contact with the Records Management Branch and generally retain records by division or location and do not have a system in place to provide an accurate number of the boxes of inactive records within their entity. Most entities informed us that the

storage of inactive records is now a major problem for their organization.

- Although the Records Management Branch has developed an Information Management System for Administrative Records as required by Cabinet directive, it has not fully complied with the direction of Cabinet because it has not issued any policies or directives relating to operational records or computerized records. Only two departments have entered into agreements with the Provincial Archives respecting the implementation of the Information Management System for Administrative Records.

### 3.25 Government Air Services Division

The Air Services Division of the Department of Works, Services and Transportation is responsible for the operation and maintenance of a fleet of 11 aircraft consisting of 2 air ambulances, 1 fire spotter and 8 water bombers. It is also responsible for chartering helicopters and fixed wing aircraft for all Government Departments. The cost to operate this Division in 1999-2000 was $9.1 million. Government departments also spent $5.8 million in 1999-2000 for helicopter and fixed wing charters.

In October 2000, we completed a review of the Air Services Division. Our conclusions are as follows:

**Aircraft Acquisition and Disposal**

In June 2000 Government Air Services Division replaced the existing air ambulance with a King Air 350 aircraft at a total cost of $4.95 million. We asked the Department of Works, Services and Transportation to provide us with their assessment of the options they examined to replace the King Air 100 along with the financial implications of each option. Several months after our initial request, information was provided.

When two new CL215 water bombers were purchased in 1995, two CV14 Canso water bombers were placed in storage to be used as back up to the existing fleet. Air worthiness maintenance was discontinued in 1997 and the two aircraft were grounded. In 1999 Air Services determined that the two aircraft had deteriorated to the point that it was no longer cost effective to refurbish them. We note that a water bomber had to be leased during the 1999 fire season at a cost of $275,000. In addition, the Department sold two other CV14 Canso water bombers in 1996 for a total of $427,000. At the time of our audit, the two Canso water bombers remain in unheated storage and there has been no action taken to dispose of the obsolete aircraft.

**Inventory Management System**

The inventory at Air Services, valued at approximately $3 million, is not properly controlled. Of this total, $2.5 million is located at the St. John's hangar and $500,000 of small usable parts and obsolete Canso inventory is located in the Gander hangar.

**Management of Aircraft Costs**

Air Services Division is currently not utilizing Government's Financial Management System to identify the costs of operating each individual aircraft. As a result, there is no comparison and analysis of these costs over time, between aircraft, by hours flown and to industry standards. Such information is necessary to manage the aircraft and make informed decisions.

Since there is no system being used to identify the costs of operating each individual aircraft, total costs by aircraft type are determined manually by Air Services. This information is used to support the amounts charged to users of the Government aircraft. Our review of the hourly rates charged by the Air Services Division indicated that, although the cost information is used to calculate an hourly rate, an arbitrary amount is added to this rate in determining the hourly rate to be charged to users. Furthermore, since the current system for the accumulation of costs produces information that contains errors and the overhead allocations cannot be supported, the amounts being charged are not accurate.

Air Services enters into contracts to provide maintenance services and to lease its water bombers to third parties. Air Services could not provide us with sufficient financial information to support their rationale for contracting its aircraft and other services to other jurisdictions and third parties. Furthermore, the Division did not have adequate information to show the final results of its contract work. As a result, the Division does not know whether these contracts were financially beneficial to Government.

In accordance with the Financial Administration Act and Government policy, all expenditures must be charged to expenditure accounts, for which funding has been approved by the House of Assembly. For the past three years, the Division has been charging expenditures to its revenue accounts, which contravenes the Financial Administration Act. In 1999-2000, the Department effectively overspent its travel and supplies funding by $117,900 by charging this amount to revenue accounts.

**Aircraft Operations**

Air Services is responsible for the operation and maintenance of the six Government-owned water bombers, the Government-owned air ambulance, and the Cessna spotter plane. The Division also co-ordinates and monitors aircraft chartered from a number of private/public companies. In 1999-2000, $1.161 million was spent by Air Services chartering aircraft for air ambulance flights and $5.8 million was spent by departments on chartering flights for departmental use. There is a significant lack of control over the use of these aircraft. For example:

- There was a lack of information on passengers who travelled on the Government-owned Cessna, the Government-owned water bombers, and departmental charters of helicopters, fixed wing aircraft and air ambulance flights which are obtained from a number of companies. Furthermore, we found inconsistent documentation on passengers who travelled on the Government- owned King Air ambulance. As a result, Government did not know who travelled at public expense nor could it verify that passengers were Government employees. Furthermore, the lack of adequate documentation related to passengers is not in accordance with the Government policy as directed by Cabinet.

- The lack of information on passengers who travelled on the Government-owned Cessna and the Government-owned water bombers is in direct contravention of Transport Canada Regulations which require that a passenger manifest be left at the point of departure and retained pending their audit.

- All departmental charters are coordinated by Air Services but the department requiring the charter has payment responsibility. Our review of departmental charters identified several weaknesses with respect to the payment of invoices. Key documents to support the payment of the invoice including the Government Aircraft Flight Report and the Aircraft Flight Authorization form were often incomplete and in some cases, were not attached to the invoice.

- The Public Tender Act requires that goods and services exceeding $10,000 be publicly tendered. We identified a number of aircraft charters that exceeded $10,000 each of which should have been publicly tendered.

**Human Resource Management**

Weaknesses were identified with respect to the management of human resources. The Department has not established a human resource succession plan for Air Services, even though all of senior management and many of the pilots are approaching normal retirement age. Air Services incurs significant overtime expenditures due to the emergency nature of its operations, however, overtime is not properly monitored and controlled. In addition, Government policy which limits overtime to 10% of annual salary for management employees has not always been adhered to.

We noted as well that it was accepted practice that dispatchers who leave their shift early are not losing pay or using their leave. This practice has since been corrected by the Department and dispatchers are required to take employee leave when a scheduled shift is not completed. As well, attendance records were not accurate, complete or always approved by management.

### 3.26 Vessel Renewal and Replacement

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. During the 1999-2000 fiscal year, the Province spent $31.5 million on ferry operations and collected $16.0 million in revenues. At 31 March 2000, the Province's ferry operations included 20 vessels serving 16 routes around the Island and coastal Labrador and 1 newly acquired vessel undergoing major refit.

Of the 21 vessels, nine are owned by private ferry operators and the remaining 12 are owned by the Province. Of these 12 vessels, 7 are 25 years of age and older and have an average age of 23 years. Included in these 12 vessels are two marine vessels which were purchased within the past three years. The Captain Earl Winsor was purchased in 1997 and was 25 years old when purchased. The Ahelaid was purchased in 1999 and was 13 years old when purchased. Subsequent to their purchase, both vessels were required to be refitted to meet Canadian standards and Departmental requirements.

Our review of the purchase price and refit costs for the Captain Earl Winsor And the Ahelaid indicated that both vessels cost more to refit than originally estimated by the Department and approved by Government. In particular:

- The total cost to purchase and refit the Earl Winsor was $3.6 million, which was $1.5 million more than the Department's original estimate of $2.1 million.
- The refit of the Ahelaid is not yet complete; however, to date, the total cost to purchase and refit the Ahelaid is $3.4 million with a minimum of an additional cost of $656,000 to be incurred for a total of $4.1 million compared to the Department's original estimate of $2.9 million. Departmental officials indicate that the final costs will exceed this $4.1 million.

The Department is not always complying with the *Public Tender Act* in that it is not always publicly tendering contracts or reporting exceptions to the House of Assembly. In addition, the Department is not always complying with Government's policy in hiring consultants.

We also determined that, almost without exception, the Department is not complying with the *Financial Administration Act* in that purchase orders are prepared after the invoices were received at the Department. Purchase orders are required to be prepared prior to the request for a good or service to ensure that the purchase is properly authorized and that sufficient funding is available to pay for the purchase.

Given that the normal life expectancy of a ferry vessel is about 25 years, significant expenditures will be required to be made by Government in the near future to upgrade or replace its marine vessels. Government commissioned a study in 1993 to review its fleet of marine vessels and determined that $18 million to $25 million was required over the following 10 years. With the exception of the newly acquired Captain Earl Winsor and the Ahelaid, there has not been a significant upgrade of the Province's fleet of marine vessels since 1993. As a result, the fleet continues to deteriorate.

### 3.27 Leased Accommodations

The Accommodations and Realty Services Division of the Department of Works, Services and Transportation is responsible for the administration of space leased by government departments, as well as other government bodies upon request. The details of all leases administered by the Division are maintained in an electronic database. At 2 March 2000, the Division managed 154 leases covering 545,000 square feet of office, storage and land space at an annual lease cost of $6.7 million.

The *Public Tender Act* provides legislative direction for the calling of tenders for the acquisition of leased space to all government funded bodies.

A review of the 133 office leases being managed by the Division at 2 March 2000 indicated that 74 leases or almost 56 percent of leases currently being managed by the Division are on a month to month arrangement at an annual lease cost of $2.2 million. 49 of these 74 leases, or 66 percent, have been in such an arrangement since 1996 and earlier. For the most part, the reason provided for these lease arrangements is that the tenant "needs additional time to determine future space requirements". As a result, it is evident that space requirements of Government are not being planned and acquired in a co-ordinated and systematic manner. Government does not have an accommodations plan which considers current and future accommodation needs of Government to ensure the optimal use of Government-owned and leased facilities.

In addition, 10 leases, with an annual lease cost of $0.9 million, were exempted by the Lieutenant-Governor in Council from tender as a particular space was required. Prior to 1994, these arrangements were required to be publicly disclosed by a regulation, thus providing transparency to a lease arrangement which was not publicly tendered; however, since 1994, these exemptions are not required to be reported publicly.

Under the current lease terms, only 19 of the 133 leases, or 14 percent, have been publicly tendered with annual lease costs of $1.9 million.

The primary objective of the *Public Tender Act*, as it pertains to leasing, is to require a public tender when space is required. The *Act* does permit an exemption from public tendering in certain cases, most of which are required to be publicly disclosed. Given that the majority of lease arrangements currently in place did not result from a public tender, I am concerned that the Department is not complying with the spirit and intent of the *Public Tender Act*.

---

## Chapter 4

## Update on Prior Years' Report Items

This year we continued a process whereby our recommendations are monitored and the results reported within two years of the original report date. This chapter provides the results of this monitoring process relating to the recommendations contained in the *Reports of the Auditor General to the House of Assembly on Reviews of Departments and Crown Agencies for the Years Ended 31 March 1994, 1995, 1996, 1997 and 1998.*

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**REPORTS > 2000 Report on the Audit of the Financial Statements of the Province**

**Newfoundland and Labrador**

# REPORT OF THE AUDITOR GENERAL

**To the House of Assembly**

**On the Audit of the Financial Statements of the Province**

**for the Year Ended**
**31 March 2000**

## Disclaimer

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# Auditor General's Report

## 1.1 Introduction

This report presents information on the Province's financial statements. The Auditor's Report on the financial statements is presented for the information of the readers. Comments are also provided on the accounting policies used in the preparation of the financial statements and how they compare to the recommendations of the Canadian Institute of Chartered Accountants, which recommends the standards for good practice in financial reporting, accounting and auditing in the public sector.

The Consolidated Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the Province. These statements consolidate the financial position and results of operation of the Consolidated Revenue Fund, which accounts for the financial activities of central government and the departments, with those of other Government entities. These statements include the operations of all government departments, of which there were 18 in 1999-2000, the Legislature, 8 Health Care Corporations, 4 Health and Community Services Boards, 11 School Boards and 43 Crown agencies. These 43 Crown agencies do not include Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission.

This report provides information on the Consolidated Summary Financial Statements and presents a summary of certain financial information contained in these financial statements and the Consolidated Revenue Fund Financial Statements.

## 1.2 Legislative Requirements Relating to the Financial Statements of the Province

In accordance with section 59 of the *Financial Administration Act*, Government prepares a document called the *Public Accounts*. This document includes the Consolidated Summary Financial Statements of the Province and the Consolidated Revenue Fund Financial Statements, and in accordance with the *Act* must show:

- the state of the public debt;
- the revenue and expenditure;
- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided for under the *Act*.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with the disclosed accounting policies of the Provincial Government and on a basis consistent with that of the preceding year, together with reservations the Auditor General may have.

For the year ended 31 March 2000, the Public Accounts contain the Consolidated Summary Financial Statements, the Auditor General's Report on those financial statements, the Consolidated Revenue Fund Financial Statements, the Auditor General's Report on those financial statements, and other information which Government is required to include or chooses to include.

Since the recommendations of the Canadian Institute of Chartered Accountants relating to financial reporting by governments have now become generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position of the Province at the end of the fiscal year.

## 1.3 Auditor's Report on the Financial Statements of the Province

The Auditor's Report on the Consolidated Summary Financial Statements of the Province for the year ended 31 March 2000 reads as follows:

*To the House of Assembly*
*Province of Newfoundland*

*I have audited the consolidated summary statement of financial position of the Province of Newfoundland as at 31 March 2000 and the consolidated summary statements of revenue and expenditure, net debt and changes in financial position for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.*

*I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles* *used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.*

*In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland as at 31 March 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies disclosed in Note 1 to the consolidated summary financial statements applied on a basis consistent with that of the preceding year.*

*Elizabeth Marshall, C.A.*
*Auditor General*

*St. John's, Newfoundland*
*20 November 2000*

## 1.4 Government's Results of Operations

For the year ended 31 March 2000, Government's Consolidated Summary Financial Statements reported a deficit of $221.3 million compared to the 1998-99 reported deficit of $187.1 million.

## Comments on Government's Financial Reporting

## 2.1 Basis of Accounting for Revenues

Government currently records certain revenues on a modified accrual basis. For example, government records revenue from the Government of Canada tax equalization payments and personal and corporate income taxes based on regular entitlements for the current year. As adjustments to regular entitlements are subject to future revisions, the revisions are reported in those future years when the adjustments become known. Government does not attempt to provide a reasonable estimate for these future revisions in the periods to which these revisions relate. In addition, revenue from significant provincial taxes, such as Gasoline Tax and Tobacco Tax, are only recorded for those amounts assessed and those taxes collected by vendors up to 31 March but not remitted by that date. Government's financial reporting would be improved if all revenues were recorded on a full accrual basis.

**Recommendation**

*Government should consider recording its revenues on a full accrual basis.*

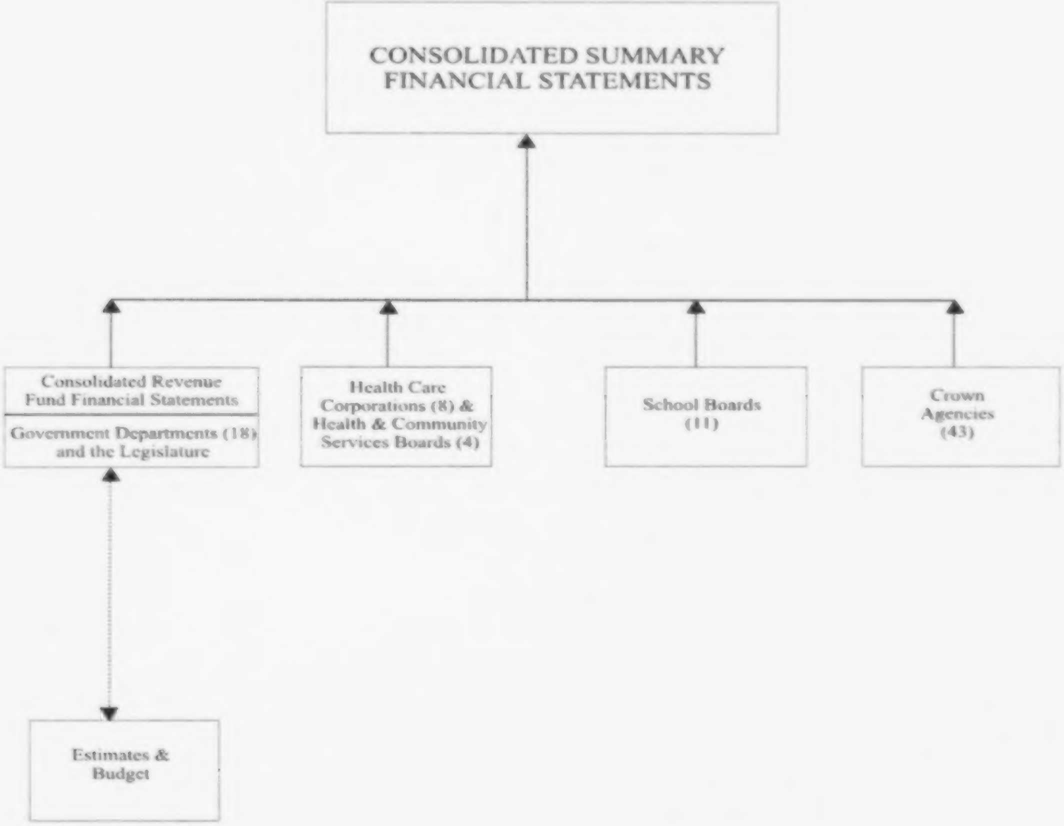
## 2.2 Comparative Budget Figures

Figure 1 indicates the organizations which are included in Government's Consolidated Summary Financial Statements.

At the present time, and as indicated in Figure 1, Government's annual Estimates and Budget reflect only the activities of the Consolidated Revenue Fund and exclude many significant financial activities of the Province which occur outside the Consolidated Revenue Fund. There is no budget prepared for the Consolidated Summary Financial Statements and, therefore, there is no financial plan against which to compare Government's overall financial position and results of operations.

**Figure 1**

**Organizations Included in the Consolidated Summary Financial Statements**
**31 March 2000**


CONSOLIDATED SUMMARY FINANCIAL STATEMENTS
Consolidated Revenue Fund Financial Statements
Government Departments (18) and the Legislature
Health Care Corporations (8) & Health & Community Services Boards (4)
School Boards (11)
Crown Agencies (43)
Estimates & Budget

Consolidated summary budgets for government are recommended by the Canadian Institute of Chartered Accountants, the professional body which recommends standards for financial reporting in the public sector. At the present time, the Federal Government and the Provinces of Nova Scotia, New Brunswick, Quebec, Ontario and Alberta publish consolidated summary budgets.

The audited financial statements of the Consolidated Revenue Fund are prepared on the accrual basis of accounting while the comparative budget figures are prepared on the modified cash basis. As a result, the audited financial statements and the budget of the Consolidated Revenue Fund are not comparable and, as such, diminish the usefulness of the information provided. Although Volume III of the Public Accounts compares actual and budget figures on a modified cash basis, and then reconciles the actual modified cash figures with the actual accrual figures in Volume II, this information is not a substitute for preparing a budget on a basis consistent with the actual financial information presented in the audited financial statements of the Consolidated Revenue Fund.

**Recommendations**

*Government should prepare a summary budget based on the budgets of all entities included in the Government reporting entity. The summary budget amounts should be prepared on the accrual basis of accounting and disclosed in the Consolidated Summary Financial Statements for comparative purposes.*

*Government should prepare the budget for the Consolidated Revenue Fund on the same basis it uses for its accounting.*

## 2.3 Government Reporting Entity

The Canadian Institute of Chartered Accountants has developed criteria for governments to follow in the preparation of consolidated summary financial statements. These criteria require the Province's Consolidated Summary Financial Statements to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the legislature, and that are owned or controlled by government. A detailed listing of organizations and enterprises included is shown in a schedule to the Consolidated Summary Financial Statements of the Province.

The Consolidated Summary Financial Statements include organizations and enterprises that meet the criteria for inclusion, with the exception of the Workplace Health, Safety and Compensation Commission and Memorial University of Newfoundland, both of which meet the criteria.

Our review of the *Workplace Health, Safety and Compensation Act* indicates the Commission is accountable to and controlled by Government. The *Act*, however, does not deal with ownership of the Commission and responsibility for its unfunded liability, which at 31 December 1999 was $179.9 million. The criteria of accountability and control are sufficient to warrant inclusion in the reporting entity. A note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements for the year ended 31 March 2000 indicated that Government considered the Commission to be a form of trust. This note disclosed information on the Commission's deficit and unfunded liability for the year ended 31 December 1999. The provinces of Saskatchewan, Manitoba, Quebec and New Brunswick include their workers' compensation boards in their government's financial statements. Prince Edward Island provides note disclosure and in British Columbia, Ontario and Nova Scotia it is structured as a trust and is therefore excluded.

Our review of the *Memorial University Act* indicates that the University is accountable to and controlled by Government. While most other provinces have not included universities in their consolidated summary financial statements, it is noted that in British Columbia, for the past several years, the Auditor General expressed a qualified opinion regarding the decision by the Government of that Province to reverse the prior inclusion of universities in its Summary Financial Statements. In most other jurisdictions, Auditors General have expressed concerns similar to ours relating to the exclusion of universities from the government reporting entity.

### Recommendation

*The Workplace Health, Safety and Compensation Commission and the Memorial University of Newfoundland should be included in the Government reporting entity.*

## 2.4 Tangible Capital Assets

In September 1997, the Canadian Institute of Chartered Accountants (CICA) issued the accounting and reporting standards for the tangible capital assets of governments. Tangible capital assets include such items as roads, buildings, vehicles, equipment, land, water systems, aircraft, computer hardware and software, dams, canals and bridges.

In accordance with these accounting and reporting standards, tangible capital assets should be accounted for and reported as assets on a Statement of Tangible Capital Assets at cost. For each major category of tangible capital assets, the Statement of Tangible Capital Assets should disclose cost, additions, disposals, the amount of any write-downs in the period, the amount of amortization of the costs of tangible capital assets for the period, accumulated amortization, the amortization method and rate used, and the net book value.

As provided by CICA standards, governments may report their financial results on either the expense basis or expenditure basis of accounting. The choice of the accounting basis affects how tangible capital assets are accounted for and reported in government's financial statements as indicated in Figure 1.

Figure 1

**Tangible Capital Assets**
**Basis of Accounting**

| Expense Basis | Expenditure Basis |
|---|---|
| Cost of the asset is reported on the Statement of Financial Position. | Cost of the asset is reported only on the Statement of Tangible Capital Assets and not on the Statement of Financial Position. |
| Amortization is accounted for as an expense in the Statement of Operations. | Amortization is reported only on the Statement of Tangible Capital Assets and not on the Statement of Revenue and Expenditures. |
| The net write-down is accounted for as an expense in the Statement of Operations. | The write-down is reported only on the Statement of Tangible Capital Assets and not on the Statement of Revenue and Expenditure. |
| The difference between the proceeds on disposal and the net book value of the asset is accounted for as a revenue or expense in the Statement of Operation. | The net proceeds on disposal of an asset is accounted for as revenue in the Statement of Revenue and Expenditure. |

Source: CICA Handbook

The Province reports its capital assets on the expenditure basis. As a result, tangible capital assets are currently not valued for presentation on the Statement of Financial Position in the Consolidated Revenue Fund Financial Statements but are expensed in the year of acquisition or construction. The Consolidated Revenue Fund Financial Statements do, however, include a Schedule of Tangible Capital Assets which provides information for various categories of tangible capital assets such as the estimated cost of additions and disposals, estimated useful life, annual and accumulated amortization, and net book value. This Schedule includes those tangible capital assets having an estimated individual historic cost in excess of $100,000.

While the Province has continued its efforts to accumulate information on all of its tangible capital assets, to comply with CICA recommendations for tangible capital assets several issues must be addressed. These issues include the incompleteness of information on capital assets disclosed in the Schedule, the lack of an accounting system to record information on capital assets, and the lack of clear and documented criteria and guidelines for the definition of a capital asset and the relevant costs to be included in this definition.

## Comments on Government's Financial Reporting

The Province has indicated that it is continuing efforts to improve the completeness and reasonableness of the cost estimates of tangible capital assets and will examine the process for capital asset recording and reporting in the province's financial statements.

**Recommendation**

*Government should continue with its efforts to improve the completeness and accuracy of its capital assets.*

## 2.5 Periodic Financial Statements

Government's financial statements are an important component of its financial management system and should show the results of operations and its financial position on a periodic basis. Periodic financial statements are important to effectively monitor and control government operations. Currently, neither monthly nor quarterly financial statements are prepared by Government to determine its results of operations and its financial position on an on-going basis. Rather, Government only prepares annual financial statements.

We indicated last year that Government was implementing a system which was expected to address the concerns related to periodic reporting. During 1998-99, Government implemented the new Financial Management System which included the following five core applications: budgeting, purchasing, accounts payable, accounts receivable, and general ledger. All core applications are fully operational, with the exception of the accounts receivable component which is anticipated to become fully operational during 2000-2001.

In addition to these core applications, however, other financial systems are maintained independent of the Financial Management System including the Human Resource Management Information System (payroll), payments to one-time vendors, Motor Registration Division System, Taxation Information Management System and the Inventory Management System. Information from these other systems are processed into the Financial Management System through the use of computer interfaces. However, Government is still not preparing periodic financial statements.

**Recommendation**

*Government should prepare periodic financial statements.*

## 2.6 Timeliness of the Province's Financial Statements

In order for financial statements to be useful, they have to provide relevant and reliable information on a timely basis. Traditionally, Government has tabled its financial statements in December, nine months after the year end. In previous years, we recommended to Government that its financial statements be prepared on a more timely basis so as to provide the users with current financial information. Figure 1 provides the dates that the Consolidated Summary Financial Statements for the years ended 31 March 1997, 1998, 1999, and 2000 were released for the 11 jurisdictions in Canada.

**Figure 1**

**Consolidated Summary Financial Statements**
**Release Dates**
**Years Ended 31 March**

| Jurisdiction | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| Newfoundland | 18 December 1997 | 15 December 1998 | 14 December 1999 | - |
| Nova Scotia | 7 August 1997 | 31 July 1998 | 15 December 1999 | Not Released at Report Date |
| Prince Edward Island | 30 January 1998 | 17 December 1998 | 7 December 1999 | Not Released at Report Date |
| New Brunswick | 13 August 1997 | 24 September 1998 | 29 December 1999 | Not Released at Report Date |
| Quebec | Not Produced | 17 June 1999 | 28 March 2000 | Not Released at Report Date |
| Ontario | 9 September 1997 | 28 September 1998 | 15 October 1999 | 1 November 2000 |
| Manitoba | 31 October 1997 | 30 November 1998 | 29 November 1999 | 28 September 2000 |
| Saskatchewan | 4 September 1997 | 27 August 1998 | 28 October 1999 | 25 July 2000 |
| Alberta | 26 June 1997 | 24 June 1998 | 28 June 1999 | 29 June 2000 |
| British Columbia | 18 December 1997 | 20 October 1998 | 16 September 1999 | 24 August 2000 |
| Canada | 15 October 1997 | 15 October 1998 | 26 October 1999 | 28 September 2000 |

Figure 2 provides the dates that the Consolidated Revenue Fund Financial Statements for the years ended 31 March 1997, 1998, 1999, and 2000 were released for the 11 jurisdictions in Canada.

**Figure 2**

**Consolidated Revenue Fund Financial Statements**
**Release Dates**
**Years Ended 31 March**

| Jurisdiction | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| Newfoundland | 18 December 1997 | 15 December 1998 | 14 December 1999 | - |
| Nova Scotia | 7 August 1997 | 31 July 1998 | Not produced | Not Produced |
| Prince Edward Island | 30 January 1998 | 17 December 1998 | 7 December 1999 | Not Released at Report Date |
| New Brunswick | Unaudited | Unaudited | Unaudited | Unaudited |
| Quebec | 18 December 1997 | 17 June 1999 | Not Produced | Not Produced |
| Ontario | 9 September 1997 | 28 September 1998 | Not produced | Not Produced |
| Manitoba | 17 September 1997 | 28 September 1998 | 30 September 1999 | 28 September 2000 |
| Saskatchewan | 4 September 1997 | 27 August 1998 | 28 October 1999 | 25 July 2000 |
| Alberta | 24 September 1997 | 30 September 1998 | Not produced | Not Produced |
| British Columbia | 18 December 1997 | 20 October 1998 | 16 September 1999 | 24 August 2000 |
| Canada | 28 October 1997 | 17 November 1998 | Not produced | Not Produced |

We received the first draft of the Consolidated Revenue Fund Financial Statements and the Consolidated Summary Financial Statements for the year ended 31 March 2000, on 28 July 2000 and 13 October 2000 respectively. Although it is desirable to improve the timeliness of this annual reporting, we recognize that the challenge is to continue to improve the timeliness without diminishing the completeness and accuracy of the financial information.

### Recommendation

*Government should continue efforts to improve the timeliness in preparing its financial statements.*

## 3.1 Key Indicators of the State of a Government's Finances

The Canadian Institute of Chartered Accountants is the professional body that recommends standards for financial reporting, accounting and auditing in the public sector. It also initiates research studies on public sector accounting and auditing matters.

In 1997, the Canadian Institute of Chartered Accountants issued a Research Report entitled *Indicators of Government Financial Condition*. That report explored a variety of financial indicators and identified ten which it felt best describes the financial condition of a government. These ten indicators were categorized in terms of three elements of financial condition - sustainability, flexibility, and vulnerability.

(i) Sustainability

Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. The research study proposes that users of a province's financial statements look at the long-term trends in two indicators:

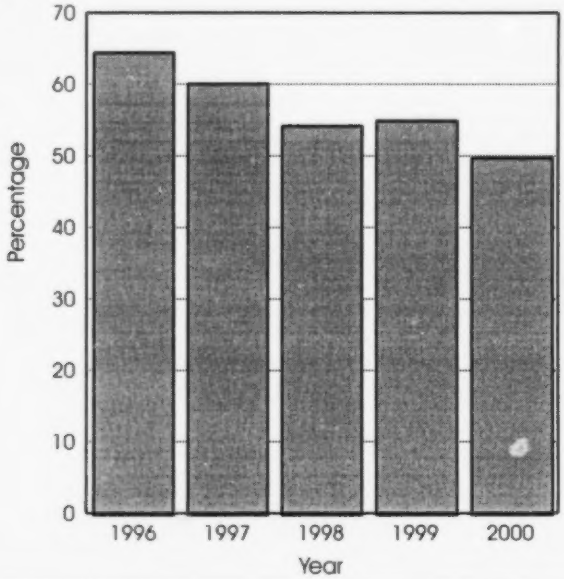
- deficit to GDP; and
- debt to GDP.

For purposes of this Report, I have presented the debt to GDP ratio over the past five years. This ratio measures Government's debt position relative to the Province's economic base. If the Province's debt grows faster than the Provincial GDP, the ratio will increase and become less favorable, indicating that the debt burden is becoming more onerous. Conversely, a declining debt to GDP ratio is positive as it indicates that the debt burden is becoming less onerous. While it is difficult to determine an appropriate level of debt, it is positive that the debt to GDP ratio has mainly declined over the past five years, as indicated in Figure 1.

## Comments on Selected Financial Information

**Figure 1**

**Consolidated Summary Financial Statements**
**Borrowings As a Percentage of Provincial GDP**
**Years Ended 31 March**



(ii) Flexibility

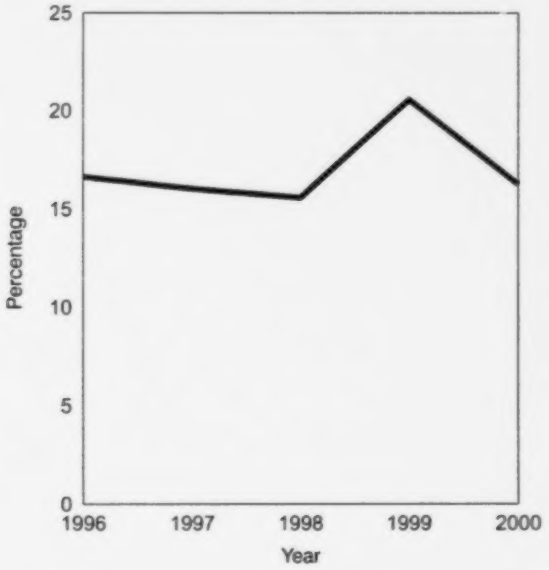
Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. The research study proposes that users of the province's financial statements look at the long-term trends of three indicators:

- interest costs as a percentage of total revenue;
- changes in physical capital stock; and
- own source revenues to GDP.

For purposes of this Report, I have presented interest costs as a percentage of total revenue to indicate the extent to which Government revenues are used to pay the interest on the Province's debt. The province's net debt at 31 March 2000 (excluding the unfunded pension liability) is $5.699 billion. As indicated in Figure 2, interest costs on borrowings as a percentage of total revenue declined from 1996 to 1998, increased in 1999 and declined again in 2000.

**Figure 2**

**Consolidated Summary Financial Statements**
**Interest Costs on Borrowings**
**As a Percentage of Total Revenue**
**Years Ended 31 March**



(iii) Vulnerability

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. In 1999-2000, the Federal Government provided $1.620 billion of the Province's total revenue of $3.752 billion.

The research study proposed that users of the province's financial statements look at the long term trends of five indicators:

- government-to-government transfers compared to own source revenues;
- foreign-held government debt to net government debt;
- foreign currency debt to net government debt;
- current account balance to GDP; and

- total external debt to GDP.

For purposes of this Report, we present two indicators. Figure 3 indicates the percentage of Federal revenues compared to the Province's revenues from its own sources. As the figure indicates, over the past five years, Federal revenues ranged from 43.0% in 1997 to 50.5% in 1998. For 2000, Federal revenues accounted for 43.2% of the Province's total revenues.

**Figure 3**

**Consolidated Summary Financial Statements**
**Federal Revenues as a Percentage of Total Revenues**
**Years ended 31 March**

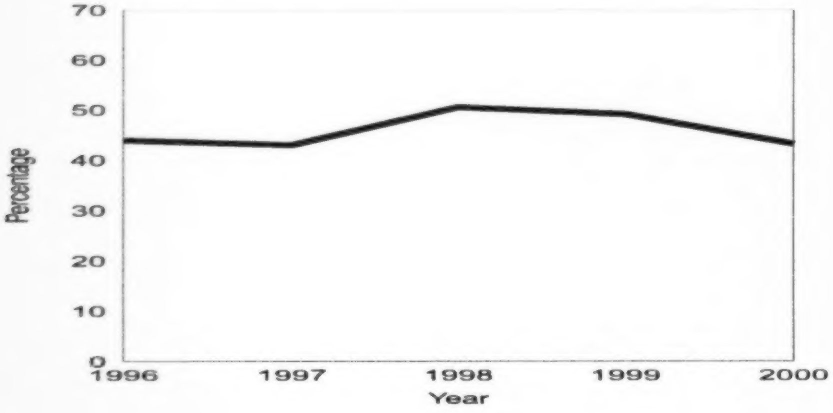
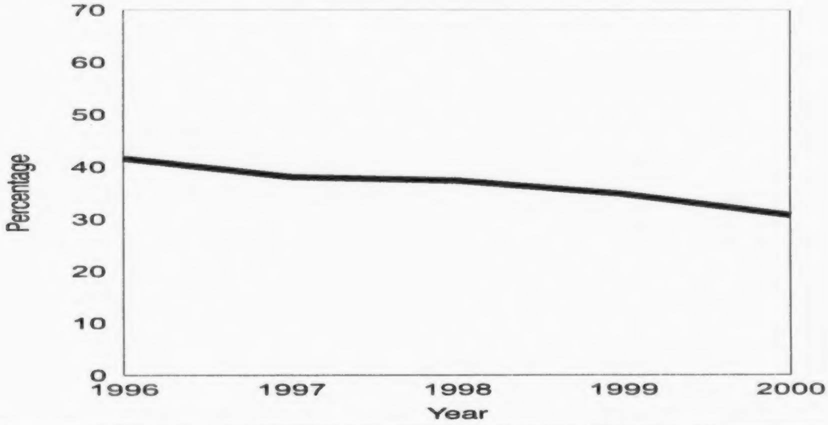


Figure 4 compares the province's foreign currency debt to the province's total debt, and indicates the degree of vulnerability which the Province has to currency swings. As the figure indicates, at 31 March 2000, 31 % of the Province's debt is in foreign currencies.

## Comments on Selected Financial Information

**Figure 4**

**Consolidated Summary Financial Statements**
**Foreign Currency Debt as a Percentage of Total Debt**
**Years ended 31 March**



As at 31 March 2000 the Province has $2,125 million in foreign debt and as a result is vulnerable to currency swings. For example, if the value of the Canadian dollar decreases from 69 cents U.S. to 65 cents U.S., the $1,173 million in U.S. debt outstanding as at 31 March 2000, when translated into Canadian dollars, would increase by $105 million Canadian (i.e. from $1,701 million Canadian to $1,806 million Canadian).

## 3.2 Amounts Owing to Government

Government policy requires that an accounts receivable system be maintained by Government departments, that departments ensure all receivables are properly recorded in their books of account and that collection be actively pursued.

Figure 1 outlines information on accounts and taxes receivable, and loans, advances and mortgages receivable, and the related allowances for doubtful accounts as disclosed in the Consolidated Revenue Fund Financial Statements for the years ended 31 March 1996 to 2000. This figure also includes the amount Government has written off during the past five years related to these accounts. In addition to the accounts written off in Figure 1, Government has also written off $10.01 million in tax forgiveness and $9.06 million in tax remissions.

## Comments on Selected Financial Information

**Figure 1**

**Consolidated Revenue Fund**
**Accounts, Taxes, Loans, Advances and Mortgages Receivable**
**Years Ended 31 March**
**($000's)**

| | 1996 | 1997 | 1998 | 1999 | 2000 | Total |
|---|---|---|---|---|---|---|
| Total Receivables | $537,153 | $474,797 | $461,612 | $468,872 | $449,539 | |
| Less: Amounts Considered to be Uncollectible | 279,924 | 215,210 | 211,832 | 242,344 | 247,799 | |
| Net Receivables | $257,229 | $259,587 | $249,780 | $226,528 | $201,740 | |
| Accounts Written off | $ 20,790 | $ 69,877 | $ 7,972 | $ 1,855 | $ 12,977 | $113,471 |

The Canadian Institute of Chartered Accountants (CICA) recommends how to account for and report loans receivable in government financial statements, giving particular attention to special characteristics that distinguish them from commercial loans made in the private sector.

The CICA defines a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount at a specified time or times, or on demand, usually with interest. Key to this definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations.

The CICA has recommended that when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations from government should be accounted for as an expenditure. When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expenditure when the loan is made. A loan receivable should be removed from a government's statement of financial position when it has been repaid, the risks and rewards associated with the loan have been transferred, the right to repayment has expired or been waived, or it is written off.

A number of the recommendations made by the CICA apply to the accounting policies of Government and should be considered in preparing the financial statements. These include the following:

## Comments on Selected Financial Information

- The CICA describes a loan receivable as a financial asset of a government represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, and usually with interest. Loans being established where there may not be a reasonable expectation of recovery would not qualify as a financial asset. In the 1999-2000 fiscal year, $13.028 million (1998-99 - $7.8 million) of new loans were established for payments made by the Province to honour guarantees it provided on debt. All of these new loans were recorded as assets of the Province while also being added to its allowance for doubtful accounts. As at 31 March 2000, $11.527 million of the $13.028 million was written off.

- The CICA provides guidance as to the proper disclosure of loans receivable. Currently, the Province's financial statements do not disclose such items as the repayment terms, interest terms and security held for any of its loans and advances receivable as recommended by CICA.

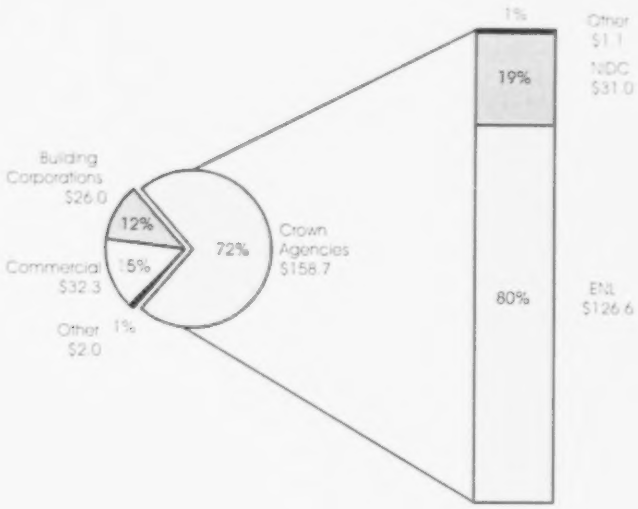
### Crown Lending Agencies

The Province of Newfoundland lends money to individuals, organizations and local governments to achieve policy objectives and, to a lesser extent, to earn a return on the use of government funds. These loans may be used to support regional development and provide economic assistance to those who qualify.

The Statement of Financial Position of the Consolidated Revenue Fund as at 31 March 2000 disclosed loans, advances and mortgages receivable of $219.1 million (1999 - $226.7 million), less an allowance for doubtful accounts of $162.2 million (1999 - $160.6 million). Figure 2 discloses the composition of these loans, advances and mortgages receivable.

Figure 2

### Consolidated Revenue Fund
### Composition of Loans, Advances and Mortgages Receivable
### 31 March 2000
### ($ Millions)



Source: 31 March 2000 Loans, Advances and Mortgages Receivable Schedule, Consolidated Revenue Fund

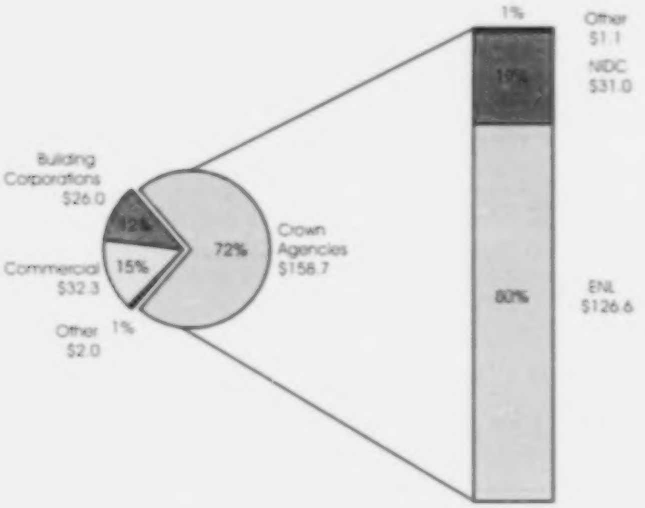
Note: ENL balance includes accounts from Enterprise Newfoundland and Labrador, Farm Development Loan Board and Fisheries Loan Board

The funds advanced to the Crown lending agencies by the Province are in turn lent to individuals and corporations. Three of these Crown agencies account for 58% of the Province's loans, advances and mortgages receivable. These agencies are listed in Figure 3 along with their loan and equity portfolios.

## Comments on Selected Financial Information

### Figure 2

### Consolidated Revenue Fund
### Composition of Loans, Advances and Mortgages Receivable
### 31 March 2000
### ($ Millions)



Source: 31 March 2000 Loans, Advances and Mortgages Receivable Schedule, Consolidated Revenue Fund

Note: ENL balance includes accounts from Enterprise Newfoundland and Labrador, Farm Development Loan Board and Fisheries Loan Board

The funds advanced to the Crown lending agencies by the Province are in turn lent to individuals and corporations. Three of these Crown agencies account for 58% of the Province's loans, advances and mortgages receivable. These agencies are listed in Figure 3 along with their loan and equity portfolios.

## Comments on Selected Financial Information

**Figure 3**

**Loan and Equity Portfolios of Crown Agencies**
**Years Ended 31 March**
**($ 000's)**

| Crown Agency | 1999 | 2000 |
|---|---|---|
| Enterprise Newfoundland and Labrador Corporation | $ 79,472 | $ 78,204 |
| Farm Development Loan Board | 8,872 | 8,418 |
| Fisheries Loan Board | 27,006 | 20,633 |
| Total | $115,350 | $107,255 |

Source: 31 March 2000 audited financial statements, except unaudited financial statements for Fisheries Loan Board

We reviewed the financial statements of Enterprise Newfoundland and Labrador Corporation and its predecessor agencies, as well as the Farm Development Loan Board and the Fisheries Loan Board to determine:

- total loans issued, including interest, as disclosed in their respective financial statements;
- amounts repaid;
- amounts written off;
- balances outstanding; and
- amounts deemed uncollectible.

As at 31 March 1979, the predecessor entities of Enterprise Newfoundland and Labrador Corporation (ENL), the Farm Development Loan Board (FDLB) and the Fisheries Loan Board (FLB) had a combined loan and equity portfolio of approximately $48.5 million. Between 31 March 1979 and 31March 2000, an additional $496.4 million in loans and interest have been added to the portfolios. Of this $544.9 million portfolio, 68% has been repaid, 29% was written off or considered uncollectible and a net receivable of 3% is still outstanding. Figure 4 summarizes these amounts by entity.

Figure 4

**Loan and Equity Portfolios of Crown Agencies**
**Summary of Findings**
**($ Millions)**

| | | 1979-2000 | | | | | |
|---|---|---|---|---|---|---|---|
| Agency | 31 March 1979 Balance | Loans, Equity and Interest | Amount Repaid | Amounts Written Off | 31 March 2000 Balance | Amounts Considered Uncollectible | Percent of Accounts Written Off or Considered Uncollectible |
| ENL | $22.1 | $279.5 | $175.7 | $47.7 | $ 78.2 | $66.0 | 37.7% |
| FDLB | 2.1 | 41.7 | 34.1 | 1.3 | 8.4 | 6.5 | 17.8% |
| FLB | 24.3 | 175.2 | 157.6 | 21.3 | 20.6 | 16.3 | 18.8% |
| Total | $48.5 | $496.4 | $367.4 | $70.3 | $107.2 | $88.8 | 29.2% |

Source: 1979-2000 audited financial statements except 31 March 2000 unaudited financial statements for Fisheries Loan Board

## 3.3 Employee Pension Obligations

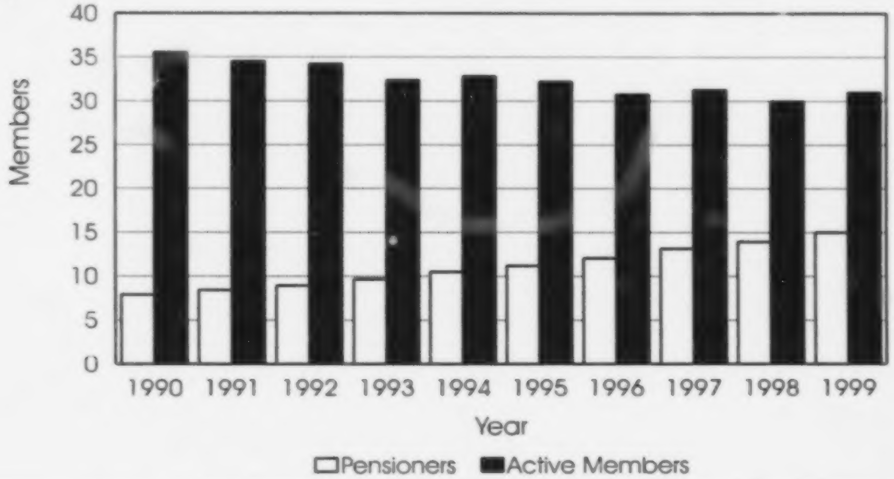
Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past ten years.

## Comments on Selected Financial Information

**Figure 1**

**Province of Newfoundland Pooled Pension Fund**
**Population History: Pensioners and Active Members**
**Years Ended 31 December**
**(000's)**



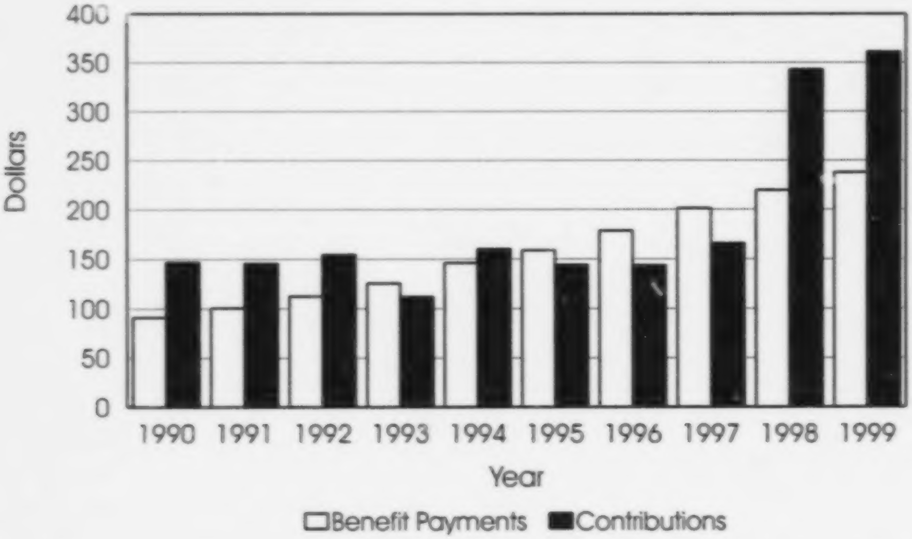
The Province of Newfoundland Pooled Pension Fund is comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

Our review disclosed that for the year ended 31 December 1999, approximately 31,000 employees, Members of the House of Assembly, and the employer paid pension premiums totalling $361 million into the Pension Fund under the four pension plans. Premiums of $361 million include a $196 million contribution by Government in excess of matching provisions. During the same period, the Fund provided benefits totalling $238 million to approximately 15,000 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past ten years.

## Comments on Selected Financial Information

**Figure 2**

**Province of Newfoundland Pooled Pension Fund**
**Pension Benefit Payments and Contributions**
**Years Ended 31 December**
**($ Millions)**



Commencing during the 1997-98 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the unfunded liability which at 31 March 1998 was $1.306 billion. At 31 March 1999 the unfunded liability had decreased to $1.043 billion but by 31 March 2000 it had increased again to $1.074 billion. Government contributed $30 million in each of 1997-98 and 1998-99. In 1999-2000 Government contributed $40 million and indicated that it will continue with payments of at least $40 million per year until the pre-1980 debt is repaid. In addition, Government has increased the contributions for employees and employers over the next four years. These actions are expected to extend the life of the Plan beyond the year 2030.

During 1998-99, Government negotiated a new collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan which as of 31 March 1998 was $1.764 billion and by 31 March 2000 had decreased to $1.571 billion. In accordance with the agreement, Government will contribute up to $815 million to the Plan over a 14 year period. Government paid $166 million each year towards this commitment in 1998-99 and 1999-2000. Additional annual payments are to be made in instalments of $76 million over a 12 year period commencing on or before 1 September 2000 and contributions rates for all teachers and the Government were increased by 0.5% effective 1 September 1998.

The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan have no assets. In the case of the Uniformed Services Plan, the unfunded pension liability will increase from the present $199.5 million to an estimated $349.0 million in 2026. In the case of the Members of the House of Assembly Pension Plan the unfunded pension liability will increase from the present $48.1 million to an estimated $73.2 million in 2016.

In the Annual Reports to the House of Assembly for the years ended 31 March 1993 to 1999, I recommended that Government address its unfunded pension liability. Government has taken action to address the unfunded liability of the Public Service Pension Plan and the unfunded liability of the Teachers' Pension Plan and these measures will favorably impact the unfunded liabilities. I remain concerned, however, with the extent of the Province's overall unfunded liability which as at 31 March 2000 was $2.892 billion, plus $417 million in unamortized experience gains, for a total unfunded pension liability of $3.309 billion (1999 - $3.352 billion).

**Recommendation**

*Government should continue its efforts to address its unfunded pension liability.*

## 3.4 Debt

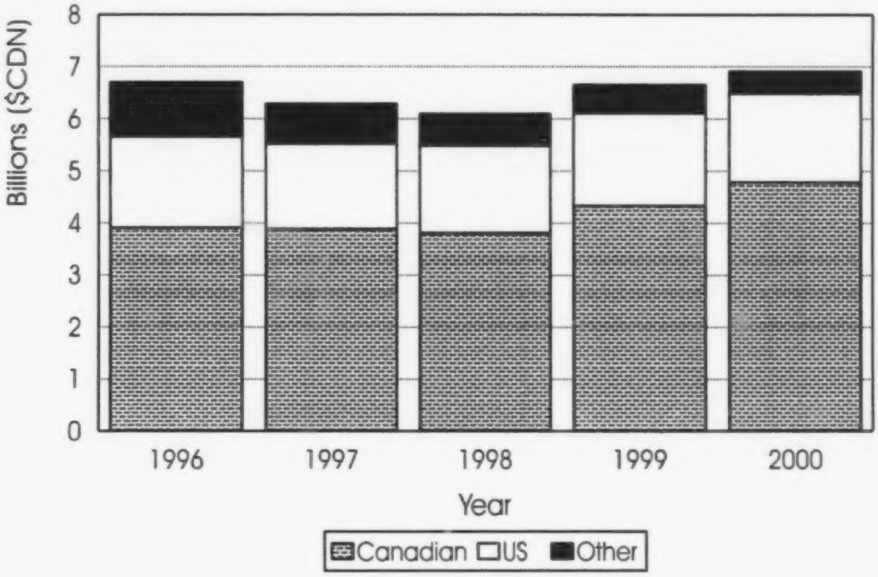
As at 31 March 2000, total borrowings were reported in the Consolidated Statement of Financial Position at $5.699 billion. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total of these amounts is reduced by sinking fund assets for various debentures. The total debt of the Province, net of sinking fund assets, is comprised of $5.068 billion in debt reflected in the Consolidated Revenue Fund, $349 million in Newfoundland Municipal Financing Corporation debt, $131 million in Newfoundland and Labrador Housing Corporation debt, $143 million in health care organizations, and other miscellaneous debt of $8 million.

Figure 1 shows the total debt owing as at 31 March 1996 to 2000 as disclosed in the Consolidated Statement of Financial Position. The figure provides a breakdown of Canadian and foreign currency debt.

## Comments on Selected Financial Information

**Figure 1**

**Consolidated Summary Financial Statements**
**Provincial Debt**
**Years Ended 31 March**
**($ Billions)**



### The Province's Borrowing Program

The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Consolidated Revenue Fund. The provincial budget determines how much capital market borrowing is required for a fiscal year. The Department monitors the capital markets and provides advice on when and where to borrow. For the 1999-2000 fiscal year the Province borrowed $400.0 million compared to the estimated total borrowing requirements of $334.7 million. In addition, Newfoundland Municipal Financing Corporation, Newfoundland and Labrador Housing Corporation, and other entities included in the Consolidated Summary Financial Statements borrowed $125.5 million, for total borrowing of $525.5 million. Figure 2 compares the Province's estimated and actual borrowing requirements for 1999-2000.

## Comments on Selected Financial Information

**Figure 2**

**Consolidated Summary Financial Statements**
**Borrowing Requirements**
**Year Ended 31 March 2000**
**($ Millions)**

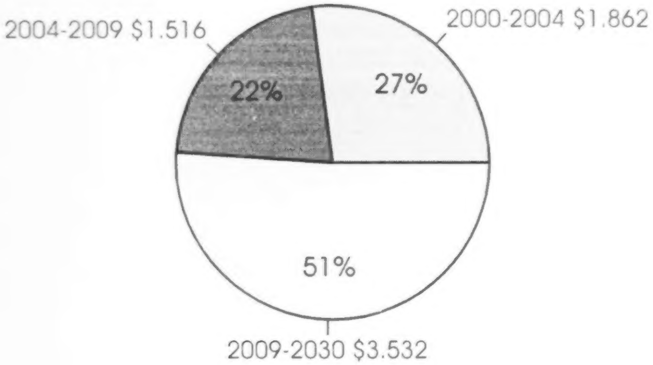
| | Estimate | Actual |
|---|---|---|
| Consolidated Revenue Fund | | |
| Current Account | $(99.8) | $(145.2) |
| Capital Account | 103.1 | 168.1 |
| Debt Redemptions | 59.4 | 70.7 |
| Foreign Exchange Losses | - | 2.7 |
| Sinking Fund Contributions | 36.0 | 47.0 |
| Retirement of Pension Liabilities | 206.0 | 206.0 |
| Increase (decrease) in Temporary Investments | - | (78.3) |
| Other | 30.0 | 129.0 |
| | 334.7 | 400.0 |
| Newfoundland Municipal Financing Corporation | - | 20.0 |
| Newfoundland and Labrador Housing Corporation | - | 33.4 |
| Health Care Corporation of St. John's | - | 61.3 |
| Other | - | 10.8 |
| Total | $ 334.7 | $525.5 |

## Comments on Selected Financial Information

Our review of borrowings as reported in the Province's Consolidated Summary Financial Statements as at 31 March 2000 indicated that 27% or $1.862 billion of the debt matures within four years, 22% or $1.516 billion of the debt matures between five and nine years and 51% or $3.532 billion of the debt matures in excess of nine years. The composition of this debt maturity profile for the Province is shown in Figure 3.

**Figure 3**

**Consolidated Summary Financial Statements**
**Debenture Debt Maturity Profile**
**31 March 2000**
**($Billions)**



Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. The Province pays the sinking fund contributions to the Board of Trustees of the Newfoundland Consolidated Sinking Funds. This is an unincorporated body appointed by the Lieutenant-Governor in Council. The sinking funds of the Province are administered by the Board of Trustees as one fund known as the Newfoundland Government Sinking Fund. Figure 4 is a summary of sinking funds at 31 March 2000 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

## Comments on Selected Financial Information

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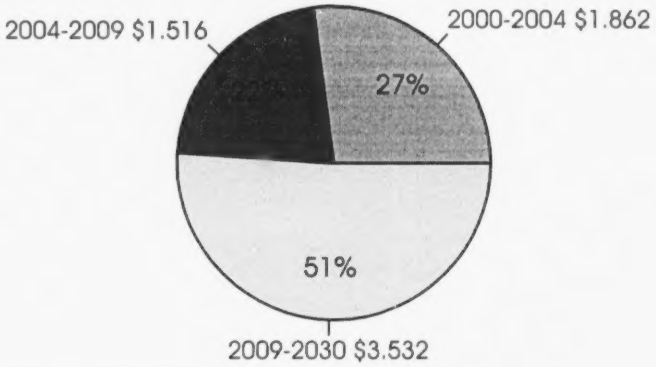
**31 March 2000**
**($Billions)**



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## Comments on Selected Financial Information

**Figure 4**

**Consolidated Summary Financial Statements**
**Borrowings and Sinking Funds**
**31 March 2000**
**($ 000's)**

| | Debt Outstanding | Sinking Fund Balance | Balance net of Sinking Fund |
|---|---|---|---|
| Total Debt With Statutory Sinking Funds | $ 3,506,987 | $721,381 | $2,785,606 |
| Total Debt With Voluntary Sinking Funds | 1,038,520 | 488,991 | 549,529 |
| Total Debt Without Sinking Funds | 2,364,055 | - | 2,364,055 |
| Total | $6,909,562 | $1,210,372 | $5,699,190 |

Figure 5 shows borrowings net of sinking funds for each of the past five years.

**Figure 5**

**Consolidated Summary Financial Statements**
**Borrowings and Sinking Funds**
**Years Ended 31 March**
**($Millions)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Borrowings | $6,725 | $6,291 | $6,093 | $6,654 | $6,909 |
| Sinking Funds | 945 | 985 | 1,042 | 1,097 | 1,210 |
| Net Debt | $5,780 | $5,306 | $5,051 | $5,557 | $5,699 |

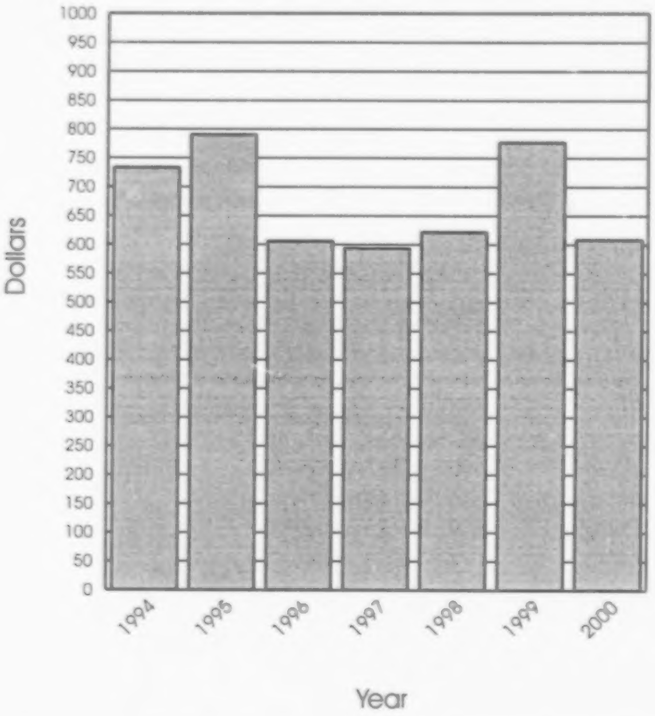
## Comments on Selected Financial Information

The Province's debt expense for 1999-2000 as recorded in the Consolidated Summary Financial Statements is $836.2 million, which consists of $227.2 million of pension interest expense on the unfunded pension liability and $609.0 million which relates to the cost of servicing the Province's debt.

Our review of the Consolidated Summary Financial Statements over the past seven years disclosed that the cost of servicing the Province's debt has increased from $733.1 million in 1994 to $790.5 million in 1995, then decreased to $594.0 million in 1997, increased to $777.3 million in 1999 and decreased to $609.0 in 2000. This information is contained in Figure 6.

**Figure 6**

**Consolidated Summary Financial Statements**
**Debt Servicing Costs (Excluding Pension Interest Expense on the Unfunded Liability)**
**Years Ended 31 March**
**($ Millions)**



## Comments on Selected Financial Information

The composition of the cost of servicing the Province's debt for the year ended 31 March 2000 is indicated in Figure 7.

**Figure 7**

**Consolidated Summary Financial Statements**
**Debt Servicing Costs**
**Year Ended 31 March 2000**
**($ Millions)**

| Issue | Debt Servicing Cost | Percentage of Total Debt Servicing Cost | Percentage of Debt Portfolio |
|---|---|---|---|
| Consolidated Revenue Fund | | | |
| Canadian | $247.0 | 29.5 % | 28.9% |
| CPP / Government of Canada | 72.2 | 8.6 % | 6.0% |
| United States | 146.9 | 17.6 % | 16.1% |
| Swiss | (17.5) | (2.1)% | 3.7% |
| Japanese | 10.7 | 1.3 % | 0.3% |
| Other | 74.1 | 8.9 % | 7.0% |
| | 533.4 | 63.8 % | 62.0% |
| Newfoundland Municipal Financing Corporation | 42.6 | 5.1 % | 4.0% |
| Newfoundland and Labrador Housing Corporation | 30.0 | 3.6 % | 1.3% |
| Other | 3.0 | 0.3 % | 1.4% |
| | 609.0 | 72.8 % | 68.7% |
| Pension Interest Expense on the Unfunded Liability | 227.2 | 27.2 % | 31.3% |
| Total | $836.2 | 100.0 % | 100.0% |

## 3.5 Foreign Debt

As at 31 March 2000, total borrowings outstanding, as disclosed in the Consolidated Summary Financial Statements, was $6.909 billion of which $2.125 billion or 30.8% was repayable in foreign currencies.

Our review of the borrowings as reported in the Province's Consolidated Summary Financial Statements as at 31 March 1996, 1997, 1998, 1999 and 2000 indicated that for 1996, 1997 and 1998 there were net decreases from previous years of $70 million, $434 million and $198 million respectively. For 1999 and 2000 there were net increases from previous years of $561 million and $255 million respectively. The net changes for the five years resulted from the transactions shown in Figure 1.

**Figure 1**

**Consolidated Summary Financial Statements**
**Change in Debenture and Other Debt**
**Years Ended 31 March**
**($ Millions)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Consolidated Revenue Fund | | | | | |
| Outstanding debenture and other debt, beginning of year | $6,022 | $5,939 | $5,562 | $5,370 | $5,989 |
| New debt | | | | | |
| Borrowed | 250 | 100 | 289 | 700 | 400 |
| Newfoundland Ocean Enterprises Limited (Assumed) | - | - | - | 71 | - |
| Newfoundland Farm Products (Assumed) | - | - | - | 10 | - |
| Pooled Pension Fund | - | - | - | 6 | - |
| Other | - | - | - | 2 | - |
| Increase (decrease) in Treasury Bill borrowings | (3) | 2 | (35) | 21 | 12 |
| Debt retired | (146) | (357) | (479) | (346) | (60) |
| Increase (decrease) in debt due to changes in the value of the Canadian dollar | (184) | (122) | 33 | 155 | (137) |
| Outstanding debenture and other debt, end of year | 5,939 | 5,562 | 5,370 | 5,989 | 6,204 |
| Newfoundland Municipal Financing Corporation | 590 | 545 | 474 | 450 | 423 |
| Newfoundland and Labrador Housing Corporation | 169 | 154 | 134 | 130 | 131 |
| Other | 27 | 30 | 115 | 85 | 151 |
| **Total** | **$6,725** | **$6,291** | **$6,093** | **$6,654** | **$6,909** |

## Comments on Selected Financial Information

The cost of borrowing in foreign currencies is affected by fluctuations in the value of the Canadian dollar. There is a risk that if the value of the Canadian dollar declines in relation to other currencies, the cost of purchasing foreign currencies to pay interest charges or to retire the debt increases. This will result in additional costs to the Province to service the foreign debt.

Figure 2 indicates the exchange rate fluctuations related to the foreign currency debt of the Province.

**Figure 2**

**Exchange Rates
31 March**

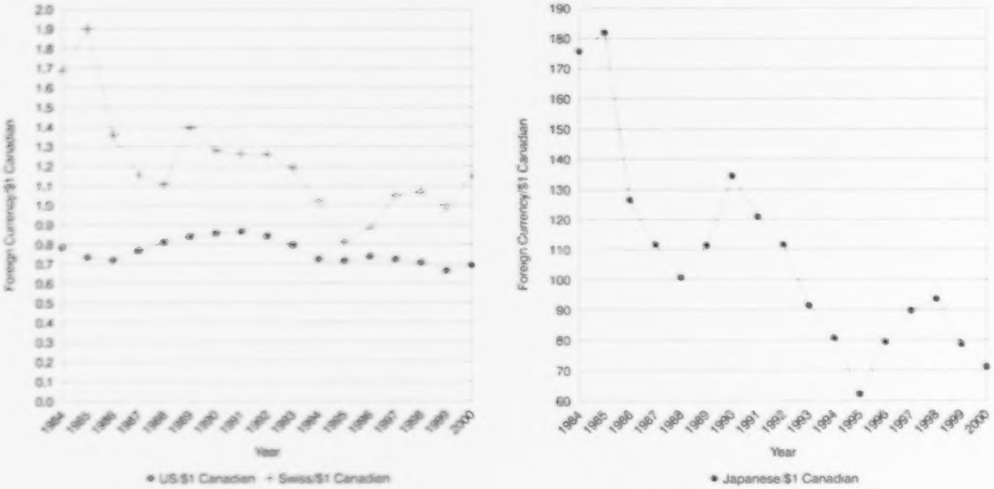


Figure 3 indicates the foreign currency debt issues outstanding as at 31 March 2000. The figure also indicates the interest rate stipulated in the debenture or loan agreement, the Canadian interest rate at the time of issue (as indicated by the Department of Finance) and the effective cost of borrowing for the fiscal years 1995-96 to 1999-2000.

## Figure 3

## Effective Cost of Borrowing
## Foreign Currency Debt

| Issue | Interest Rate Per Debenture or Loan Agreement | Canadian Interest Rate Available at Time of Issue | Effective Cost of Borrowing * | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 |
| J8 (Japanese Yen) | 6.250% | 9.350% | (6.630%) | 5.610% | - | - | - |
| J9 (Japanese Yen) | 4.800% | 8.900% | (0.290%) | (3.080%) | (2.334%) | 13.478% | 11.033% |
| J10(Japanese Yen) | 4.950% | 8.900% | (1.600%) | (1.060%) | (0.674%) | 8.130% | 10.990% |
| S3 (Swiss Franc) | 5.375% | 11.250% | 5.050% | (8.020%) | 9.074% | 24.341% | (10.333%) |
| S4 (Swiss Franc) | 5.125% | 11.125% | 2.650% | (5.140%) | 2.671% | - | - |
| S5 (Swiss Franc) | 5.000% | 11.000% | 4.530% | (3.670%) | 15.925% | - | - |
| S6 (Swiss Franc) | 7.500% | 11.900% | 6.750% | (2.990%) | 6.928% | 26.867% | - |
| S7 (Swiss Franc) | 7.000% | 11.000% | 11.100% | 1.860% | 10.295% | 19.068% | (2.716%) |
| S8 (Swiss Franc) | 3.250% | 5.700% | - | - | 2.034% | 6.737% | (3.338%) |
| AE (U.S.$) | 8.500% | 9.750% | 4.110% | 3.030% | - | - | - |
| AF (U.S.$) | 11.625% | 12.500% | 9.530% | 10.540% | 11.319% | 13.743% | 8.806% |
| AG (U.S.$) | 9.000% | 10.100% | 9.040% | 9.990% | 10.451% | 12.407% | 8.605% |
| AH (U.S.$) | 9.875% | 11.850% | 11.160% | 12.210% | 12.898% | 15.235% | 11.219% |
| AJ (U.S.$) | 10.000% | 11.800% | 11.520% | 12.490% | 13.211% | 15.529% | 11.629% |
| AK (U.S.$) | 9.000% | 10.750% | 10.480% | 11.830% | 12.381% | 14.957% | 11.019% |
| AM (U.S.$) | 8.650% | 9.800% | 9.300% | 10.010% | 10.466% | 12.365% | 9.407% |
| AN (U.S.$) | 7.320% | 8.500% | 7.320% | 7.680% | 8.051% | 9.575% | 7.243% |
| J11 (U.S.$) | 8.500% | 8.900% | 5.390% | 6.980% | 8.055% | 11.934% | 4.479% |

* The effective cost of borrowing represents the costs of interest, the amortization of foreign exchange gains and losses, and realized exchange gains and losses on sinking fund contributions expressed as a percentage of the Canadian dollars received from the debt at the time of issue.

## Comments on Selected Financial Information

### 3.6 Loan Guarantees

A loan guarantee represents an undertaking by the Province that it will pay the outstanding principal and interest relating to a guaranteed obligation in the event of a default by the borrower. These guarantees may be used to support regional development or to give economic assistance to certain industries or individuals who meet specified criteria. The Province has guaranteed the repayment of principal and interest of certain debentures and bank loans on behalf of municipalities, individuals, and private and Crown corporations.

The responsibility for the issuance of these guarantees rests with the Minister of Finance.

These guarantees are not recorded as a direct liability of the Province because they become such only in the event of default. Accordingly, outstanding guarantees are disclosed in a schedule to the Consolidated Revenue Fund Financial Statements. A summary of these guarantees is presented in Figure 1.

**Figure 1**

**Consolidated Revenue Fund**
**Loan Guarantees**
**Years Ended 31 March**
**($ 000's)**

| Description of Guarantee | 1999 | | 2000 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| **Debentures** | | | | |
| Newfoundland and Labrador Hydro | $1,100,000 | 70.6 | $1,125,242 | 69.3 |
| Newfoundland Municipal Financing Corporation | 372,802 | 23.9 | 361,559 | 22.3 |
| Municipalities | 1,747 | 0.1 | 1,600 | 0.1 |
| Newfoundland Liquor Corporation | 500 | - | 419 | - |
| **Bank Loans** | | | | |
| Crown Agencies | - | - | 101,493 | 6.3 |
| Fisheries | 20,214 | 1.3 | 23,040 | 1.4 |
| Municipalities | 2,129 | 0.1 | 799 | - |
| Corporate | 17,974 | 1.2 | 3,162 | 0.2 |
| **Other** | 42,788 | 2.8 | 7,000 | 0.4 |
| Total | $1,558,154 | 100.0 | $1,624,314 | 100.0 |

## Comments on Selected Financial Information

The Canadian Institute of Chartered Accountants recommends that loan guarantees be accounted for and reported as contingent liabilities and that a provision for losses on loan guarantees be established when it is determined that a loss is likely. For the year ended 31 March 2000 the Province has established a provision of $1.6 million for expected losses on loan guarantees.

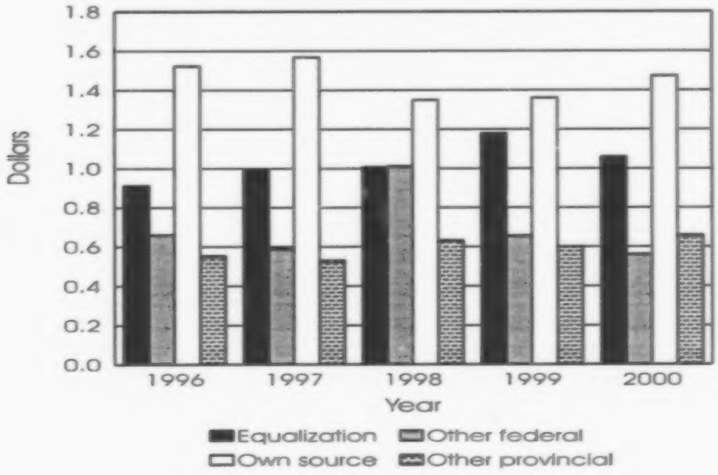
For the period 1 April 1983 to 31 March 2000 the Province has issued corporate loan guarantees totalling $153.2 million and has been obligated to make payments totalling $94.2 million on these guarantees. Also, the Province has been obligated to make payments totalling $3.0 million on fisheries loan guarantees. All of these payouts under guarantee were originally recorded as loans receivable of the Province.

## 3.7 Information on Government's Revenue

Total revenue for the year ended 31 March 2000 was reported in the Consolidated Summary Financial Statements as $3.752 billion. In addition, net income of Government Business Enterprises for the year ended 31 March 2000 was $144.4 million. Figure 1 shows the revenue of $3.752 billion, by source, for the fiscal years to 1996 to 2000.

**Figure 1**

**Consolidated Summary Financial Statements**
**Revenue by Source**
**Years Ended 31 March**
**($ Billions)**



## Comments on Selected Financial Information

The Government of Canada represents the most significant source of revenue for Government, totalling $1.620 billion in 2000. These revenues include payments received under federal provincial fiscal arrangements relating to Tax Equalization, Canada Health and Social Transfers, cost shared programs, and other payments. Government of Canada revenue represents approximately 43% of all revenues in 2000 (1999 - 48%).

Taxes amounted to $1.473 billion in 2000. Taxes include Sales Tax, Personal Income Tax, Corporate Income Tax, Gasoline Tax as well as a variety of other taxes. Tax revenues represent approximately 39% of all revenues in 2000 (1999 - 36%).

Aside from the main sources of revenue previously outlined, other sources of revenue exist, totalling $659 million in 2000. These other revenues relate to miscellaneous revenues such as investment income, vehicle drivers' licences and court fees and forfeitures. Other revenues have increased from $564 million in 1999 to $659 million in 2000. Other revenues represent approximately 18% of total revenue in 2000 (1999 - 16%).

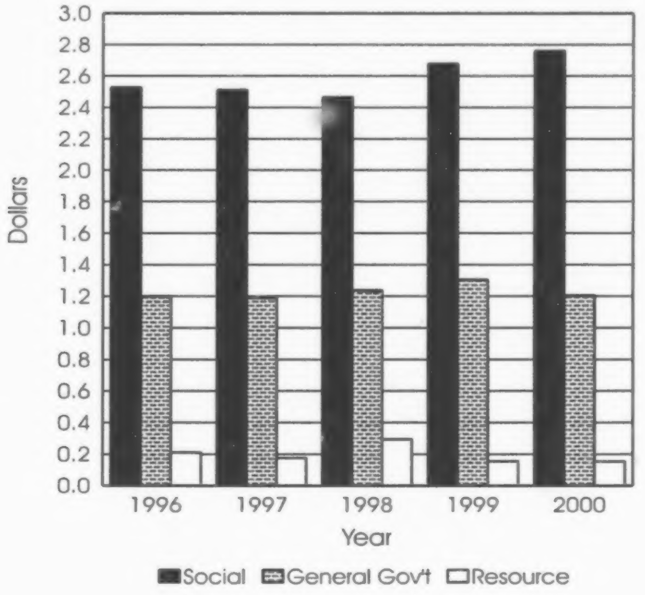
## 3.8 Information on Government's Expenditure

Total expenditure in 2000 was reported in the Consolidated Summary Financial Statements at $4.118 billion. Figure 1 shows the total expenditure, by sector, for the fiscal years 1996 to 2000.

## Comments on Selected Financial Information

**Figure 1**

**Consolidated Summary Financial Statements**
**Expenditure By Sector**
**Years Ended 31 March**
**($ Billions)**



Social Sector expenditures of $2.760 billion include the expenditures of the Departments of: Education; Health and Community Services; Justice; Municipal and Provincial Affairs; and Human Resources and Employment.

General Government Sector expenditures of $1.204 billion include expenditures of: Consolidated Fund Services; Executive Council; the Department of Finance; the Department of Government Services and Lands; Legislature; Public Service Commission; and the Department of Works, Services and Transportation.

Resource Sector expenditures of $154 million include the expenditures of the Departments of: Development and Rural Renewal; Environment and Labour; Fisheries and Aquaculture; Forest Resources and Agrifoods; Industry, Trade and Technology; Mines and Energy; and Tourism, Culture and Recreation.

## 3.9 Contingency Reserve Fund

In its 1996 Budget Speech, Government announced the establishment of a Contingency Reserve Fund of $30 million. This fund was to be used in case of unforeseen expenditures or where the Province's revenues fall below those projected. In each of its Budgets for the past four years Government has included a Contingency Reserve Fund in the amount of $30 million. Section 4(4) of the *Supply Act, 1999*, Section 4(4) of the *Supply Act, 1998*, Section 4(2) of the *Supply Act, 1997* and Section 4(2) of the *Supply Act, 1996*, provide that the Lieutenant-Governor in Council may, where an expenditure has not been foreseen and not provided for by the Legislature, transfer sums voted in the Contingency Reserve Fund to another Head of Expenditure. During the four years from 31 March 1997 to 31 March 2000 Government transferred a total of $118.8 million from the Contingency Reserve Fund to the departments, as shown in Figure 1.

Figure 1 also provides details of the various projects which were funded by Government from the Contingency Reserve Fund for each of the past four years.

# Comments on Selected Financial Information

## Figure 1

### Contingency Reserve Expenditures
### By Department and Project
### Years ended 31 March

| Department | Project | 1997 | 1998 | 1999 | 2000 | Total 1997-2000 |
|---|---|---|---|---|---|---|
| Health and Community Services | New autism-related initiatives | | | | $172,600 | |
| | Assessment of the new Youth Criminal Justice Act | | | | 25,000 | |
| | To send residents of the Province to the United States for cardiac surgery | | | | 2,115,000 | |
| | To send residents of the Province out of the country to receive Radiation Therapy | | | | 320,000 | |
| | Renovations to St. Clare's Hospital for a Breast Health Centre | | | | 2,000,000 | |
| | To establish satellite haemodialysis services in St. Anthony and Clarenville | | | | 150,800 | |
| | Post budget nursing initiatives | | | | 5,900,000 | |
| | The Provinces' share of restructuring the National Blood Supply Program | | | $7,400,000 | | |
| | Operating deficits and new funding requirements of institutions | | $23,600,000 | | | |
| | Settlement of claims from construction of health care centers in Burgeo, Port Saunders and St. Lawrence. | $1,903,448 | | | | $43,586,848 |
| Education | New autism-related initiatives | | | | 86,000 | |
| | Provincial College Operations $1.2 million and Student Loans Programs $5.0 million | | | 6,200,000 | | |
| | Newfoundland and Labrador Education Investment Corporation | | 1,700,000 | | | |
| | School Board Debt | 15,000,000 | | | | 22,986,000 |

## Comments on Selected Financial Information

### Figure 1 (Cont'd)

| Department | Project | 1997 | 1998 | 1999 | 2000 | Total 1997-2000 |
|---|---|---|---|---|---|---|
| Justice | Action against tobacco companies to recover health care costs | | | | 1,500,000 | |
| | Costs associated with Caribou Investment and Loan Company Limited | | | | 800,000 | |
| | Assessment of the new Youth Criminal Justice Act | | | | 75,000 | |
| | To meet projected payroll and operational needs | | | | 1,668,400 | |
| | Civil Law- Allowances and Assistance - Murray Premises settlement | | | 4,200,000 | | |
| | Settlement of Petten/Eastern Shipbuilders Case | | | 1,800,000 | | |
| | Breathalyzer Units | | | 240,000 | | |
| | Reclassification of Youth Care Workers | | | 580,000 | | |
| | Settlement of the claim of William Earle | 102,300 | | | | |
| | Settlement for 43 Mount Cashel Claimants | 11,238,000 | | | | |
| | Negotiations relating to the Terra Nova Project, etc. | 600,000 | | | | 22,803,700 |
| Forest Resources and Agrifoods | Emergency fire suppression cost overruns | | | | 5,538,000 | |
| | To establish the Legacy Nature Trust | | | | 1,000,000 | |
| | Special Employment Initiatives | | 2,500,000 | 1,000,000 | | 10,038,000 |
| Municipal and Provincial Affairs | Fire Commissioner's Office | | | 216,400 | | |
| | Special Employment Initiatives | | 1,000,000 | 3,000,000 | 3,500,000 | 7,716,400 |

# Comments on Selected Financial Information

## Figure 1 (Cont'd)

| Department | Project | 1997 | 1998 | 1999 | 2000 | Total 1997-2000 |
|---|---|---|---|---|---|---|
| Works, Services and Transportation | Improvement and construction of Provincial roads | | | | 1,500,000 | |
| | Emergency fire suppression cost overruns | | | | 500,000 | |
| | Special Employment Initiatives | | 700,000 | 500,000 | 1,500,000 | 4,700,000 |
| Human Resources and Employment | Special Employment Initiatives | | 300,000 | | | |
| | Employment Development Programs | | | 3,000,000 | | 3,300,000 |
| Tourism, Culture and Recreation | Tourism miscellaneous grants | | | 150,000 | 331,000 | |
| | Recreation - Operations expenditures | | | 390,000 | | |
| | Park Vehicles | | | 100,000 | | |
| | Grant to the Johnson Family Foundation - Grand Concourse | 100,000 | | | | 1,071,000 |
| Mines and Energy | Care and maintenance program at the former Hope Brook Mine site and planning for the eventual reclamation of the site | | | | 945,000 | |
| | Negotiations relating to the Terra Nova Project, etc. | 75,000 | | | | 1,020,000 |
| Government Services and Lands | Commercial registrations | | | | 350,000 | |
| | Permitting and Inspection Services | | | 108,200 | | |
| | Firearms Legislation Project | | 200,000 | | | 658,200 |
| Executive Council | Strategic Social Plan | | | 500,000 | | 500,000 |
| Legislature | House of Assembly Operations | | | 250,000 | | 250,000 |
| Development and Rural Renewal | Initiatives for development and upgrade of the former CN rail bed | | | 175,000 | | 175,000 |
| Total | | $29,018,748 | $30,000,000 | $29,809,600 | $29,976,800 | $118,805,148 |

Source: Government's accounting records

## Comments on Selected Financial Information

### 3.10 Information on Government's Deficits

In discussing Government's deficits, it is important to differentiate between the Government's deficit in any particular year and the Government's accumulated deficit at a point in time. The annual deficit is the difference between a government's revenues and expenses in a fiscal year. This measure shows the extent to which revenues raised in the year were insufficient to meet expenses in that year. Accumulated deficit is the sum of all annual deficits and surpluses and is equal to the difference between a government's total debt and its total financial assets.

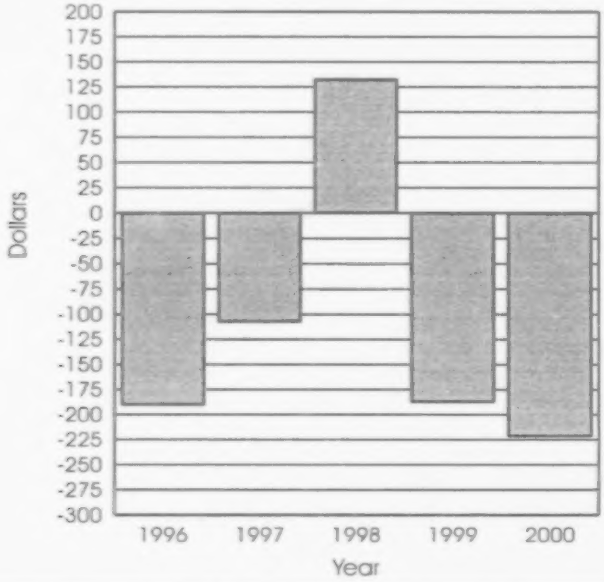
The total deficit for the 1999-2000 fiscal year, after giving effect to $144 million (1998-99 - $157 million) of net income of Government enterprises, was reported in the Consolidated Summary Financial Statements at $221 million (1998-99 - $187 million). The total deficit represents the excess of expenditure over revenue for current and capital accounts. The accumulated deficit as at 31 March 2000 was $8.1 billion (1999 - $7.9 billion).

Figure 1 shows the deficits (current and capital) of the Province for the years ended 31 March 1996 and 1997, the surplus for the year ended 31 March 1998, and the deficits for the years ended 31 March 1999 and 2000. As the figure indicates, the Province realized a deficit in four of the last five years. A contributing factor in the surplus in 1997-98 was the receipt of a one-time payment of $347.6 million from the Federal Government in consideration for the Province assuming all responsibility for operation of the marine, freight and passenger services on and to the coast of Labrador.

## Comments on Selected Financial Information

**Figure 1**

**Consolidated Summary Financial Statements**
**Surplus (Deficit) (Current and Capital)**
**Years Ended 31 March**
**($ Millions)**



## 3.11 Service Organization Report

Government uses xwave solutions (formerly NewTel Information Solutions Limited) as its service organization for the electronic processing and storage of data, maintaining and updating programs, and generation of reports. The *Canadian Institute of Chartered Accountants (CICA) Handbook* provides guidance to the auditor of an entity in obtaining audit evidence when the entity uses a service organization.

Since we are required to obtain a sufficient understanding of internal control to plan and conduct the audit of the Public Accounts of the Province, we have to determine the amount of reliance that can be placed on the management and accounting systems in operation. We must also consider the nature and extent of the services provided by xwave solutions including the authority delegated to it and the sufficiency and appropriateness of evidence available from the Province. An important source of this assurance is an opinion on control procedures at the service organization, as outlined in section 5900 of the *CICA Handbook*.

## Comments on Selected Financial Information

We received a report on control procedures at NewTel Information Solutions Limited in June 1998. It indicated that control objectives reviewed were sufficient to meet the stated objectives of the system, the control procedures described in the report were suitably designed to provide reasonable, but not absolute assurance that the control objectives were achieved, and that control procedures at the data centre operated effectively from 9 February 1998 to 20 February 1998. A review of the control procedures at xwave solutions is expected to be completed during November 2000.

*Office of the Auditor General*

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Government of Newfoundland & Labrador

**REPORTS > 2000 Report on Reviews of Departments and Crown Agencies**

**Newfoundland and Labrador**

# REPORT OF THE AUDITOR GENERAL

**To the House of Assembly**

**On Reviews of Departments and Crown Agencies**

**for the Year Ended**
**31 March 2000**

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## 1.1 Introduction

This Report has been prepared in compliance with the requirements of section 12 of the *Auditor General Act*. Section 12 requires that this Report outline significant matters identified during the course of examining the accounts of the Province, agencies of the Crown and other entities which, in the opinion of the Auditor General, should be brought to the attention of the House of Assembly.

In accordance with this provision of the *Act*, this Report includes those instances that have been observed in the course of the audits and additional examinations of departments, agencies of the Crown and other entities, that are considered to be significant. An examination of each of these matters was performed in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures considered necessary in the circumstances. The instances reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Comments on the audit of the financial statements of the Province are contained in a separate report entitled *Report of the Auditor General to the House of Assembly on the Audit of the Financial Statements of the Province for the Year Ended 31 March 2000.* That Report is also submitted to the Speaker of the House of Assembly to be tabled before the House.

## 1.2 Format of the Report

This Report contains five chapters and four appendices. A brief description of the contents of each chapter follows.

### Chapter 1 Auditor General's Overview

This chapter provides an introduction to the Report and summarizes significant matters which are presented in more detail in other parts of this Report.

### Chapter 2 Comments on Public Sector Accountability

This chapter contains comments and a recommendation relating to the systems of accountability within Government, its departments, agencies of the Crown, and Memorial University of Newfoundland.

### Chapter 3 Comments on Audits and Additional Examinations

The comments in this chapter pertain to the audit observations and recommendations resulting from audits of specific departments and agencies of the Crown. The departmental audits are listed in Appendix II, the financial statement audits performed by the Auditor General are listed in Appendix III, and the financial statement audits performed by private sector auditors are listed in Appendix IV. Additional examinations are conducted on a cyclical basis on all Government departments and agencies of the Crown.

### Chapter 4 Update on Prior Years' Report Items

This chapter provides an update on action taken with respect to recommendations made in our 1998 and prior Reports.

### Chapter 5 General Matters and Work of the Audit Office

This chapter addresses a number of general matters relating to the operations of the Office of the Auditor General including performance objectives and results to date, the financial statements of the Office, any special reports issued during the year, and comments relating to the professional activities of the Office.

## 1.3 Highlights

### 1. Government's Deficit in 1999-00

I am still concerned that Government continues to report the "cash surplus" or "cash deficit" of central government (i.e. the 18 Government departments and the Legislature which comprise the Consolidated Revenue Fund) as its surplus or deficit which can be easily adjusted to produce whatever financial results the Government desires. Government can easily decrease its "cash surplus" by increasing expenditures through special warrants which do not comply with the *Financial Administration Act* or by deferring certain revenues which have been budgeted.

Government reported a "cash deficit" of $13 million for central government in 1999-00. However, this $13 million "cash deficit" would have been a "cash surplus" of $167.1 million if Government had not issued special warrants at year end totalling $70.8 million and had not deferred budgeted revenues and guarantee fees from Hydro of $84.0 million and had not deferred budgeted sinking fund revenues of $25.3 million.

I am again recommending that Government report as its deficit or surplus the results of operations as outlined in its audited Summary Financial Statements which, for 1999-00 was a deficit of $221 million. These summary financial statements which reported a deficit of $221 million, are the most complete financial information available for Government and include the results of operations for Government's 18 departments and the Legislature, 12 health care boards, 11 school boards, and 43 Crown agencies.

## 2. College of the North Atlantic

This year we conducted an audit of the College of the North Atlantic. The previous audit was conducted in 1995 when the College system was comprised of five regional colleges. In 1997, the new College system was established as the College of the North Atlantic. In 1999-00, Government provided $46 million of the College's total revenues of $87 million.

One of Government's objectives in reorganizing the College system in 1997 was to save $3.5 million in administrative expenses. While the financial information provided by the College indicated that these expenses decreased from $20.9 million in 1995-96 to $16.7 million in 1997-98, administrative expenses have since increased to $21.8 million in 1999-00. Since the level of funding provided to the College is based on the previous year's funding adjusted for certain items, both the College and the Department of Education need to rationalize the level of funding provided to the College and the amount to be spent on administration costs, taking into consideration such factors as the number of students, and the number and types of programs provided.

My review identified a number of problems in the financial management of the College. For example:

- There are significant weaknesses in controls over furniture and equipment of the College which cost in total $48 million. The College does not have a complete listing of what assets are included in the $48 million. Reviews conducted by the College and my Office have concluded that some assets cannot be located.

- From April 1997 to March 2000, the College spent $5.4 million on travel. My review indicated that there were significant problems in the approving and monitoring of travel expenses and a lack of documentation to support the payment of travel expenses. For example, employees were submitting claims for expenses that had already been paid for by the College, many expenses that lacked the supporting documentation that was required by College policy and some expenses were items not normally reimbursed under Government policy.

- The College's financial statements indicate that $2.5 million has been invested in vehicles. The College indicated that it owned 43 vehicles and had leased an additional 6. The College did not have a listing of its vehicles when I commenced my audit. As a result, the College was paying insurance for five vehicles which had previously been scrapped, sold, or returned to the leasing company. The College spends approximately $180,000 annually to operate its vehicles. The vehicles and related operating costs are not being monitored and in addition, the College does not control and monitor usage of the 48 credit cards used to purchase gasoline for the vehicles.

### 3. Hospital Boards

During 1999-00 we continued to monitor the financial position and operating results of the Province's 8 hospital boards. Although total government funding provided to the boards has increased from $585.9 million in 1998-99 to $639.2 million in 1999-00, expenditures also continue to increase. As a result, the 8 Boards incurred operating deficits of $20 million in 1999-00 compared to operating deficits of $13.2 million in 1998-99. In addition, all 8 Boards are projecting deficits in 2000-01, the total of which is $39.8 million. Furthermore, the long term debt of the Health Care Corporation of St. John's increased from $67.1 million as of 31 March 1999 to $125.3 million as of 31 March 2000. This debt relates primarily to the construction of the new Janeway Hospital and will also have to be repaid in the future.

### 4. Ferry Vessels

As of 31 March 2000, the Province's ferry operations included 20 vessels currently serving 16 routes around the Island and Coastal Labrador and 1 newly acquired vessel under major refit. Of the 21 vessels, 9 are owned by private ferry operators and the remaining 12 are owned by Government.

The 12 ferry vessels owned by Government range in age from 10 years to 37 years, with an average age of 23 years. Seven of the 12 vessels are 25 years or older. Although a survey was carried out in 1993 to determine the condition of the ferry vessels and indicated that $18 million to $25 million was required over the next 10 years to replace 3 vessels and renew 4 vessels, a 1998 Departmental report indicated that only $4.2 million has been spent since 1993 on these initiatives. Although 2 additional vessels have been purchased and refitted since 1997, 1 vessel (Captain Earle Winsor) is 28 years old while the other (the Ahelaid) is 14 years old. While discussions with Departmental officials have indicated that all of the vessels are continually inspected and considered safe and sea worthy, it concerns me that the replacement and renewal of Government's fleet of 12 ferry vessels is being deferred with the result that significant funds will be required in the near future.

## 5. Government's Assistance to Business

I have previously reported on the operations of Enterprise Newfoundland and Labrador Corporation (ENL) and the financial assistance provided to businesses. This year I reviewed the assistance it provided to businesses through the guaranteeing of loans. My review indicated that loan guarantees are not being adequately monitored in that audited financial statements are not being obtained, guarantees were sometimes provided to companies even though the companies were in arrears on loans, security taken on guarantees was not always sufficient to cover the loan guarantee, security originally in place was sometimes subordinated in favour of other creditors and security in place was not always realized.

In addition, I reviewed the financial assistance provided to two businesses which have recently received additional financial assistance from the Newfoundland Industrial Development Corporation, another Crown corporation, to "facilitate privatization and divestiture activities". Although ENL had provided substantial amounts of funding over a number of years to both businesses, as at the date of our audit, neither company was in operation. These two companies are as follows:

- From 1989 to 2000, Steelcor Industries Incorporated has been provided with Government funding totalling $3.2 million. Over this 11 year period, ENL has never received audited financial statements from the company even though ENL had a controlling interest of 51% in the company since 1993. I also found that additional assistance was provided even though the company was in arrears on previous loans, and the security taken on the loans provided to the company was not sufficient.

- From 1995 to 2000, Picadilly Plastic Incorporated has been provided with Government funding totalling $1.6 million. Over this 5 year period, ENL has never received audited financial statements from the company. In January 1999, ENL wrote off $1.3 million owed by the company and released its security on the company's assets and a $100,000 personal guarantee from one of the owners. The next month, February 1999, the Newfoundland Industrial Development Corporation, another Crown corporation, provided a grant of $105,000 and a loan of $250,000 which was secured by the same assets used as security for the loan of $1.3 million which was written off by ENL in January 1999. In February 2000, the Newfoundland Industrial Development Corporation released its security on the assets to give priority to a Federal lending institution.

## 6. Accountability

Full accountability requires that Government be held accountable to the House of Assembly for its use of public money and the delivery of its programs. Accountability requires, as a minimum, that government, its departments and agencies of the Crown report annually to the House of Assembly, the same body which provided the monies to fund their programs.

While I am pleased that Government has developed policies to strengthen accountability within Government, I am not satisfied with the extent of progress to date. I have two concerns:

- None of the plans, information or reports generated under these "accountability" initiatives are required to be tabled in the House of Assembly. True accountability requires that all accountability information be provided to the House of Assembly and as a result, these initiatives are not sufficient to meet the requirements of a true system of accountability.
- The present initiatives for Government departments, Crown agencies and Memorial University, are not legislated. With respect to the initiatives for Crown agencies and Memorial University, they are not mandatory in that they are at the discretion of the minister responsible.

Of the 10 other jurisdictions in Canada (i.e. 9 provinces and the Federal Government), 8 have some form of accountability legislation which requires tabling of accountability reports in their legislature. In addition, in the other two jurisdictions the requirement to table annual reports is covered by policy. Our review has disclosed that in all jurisdictions, except this Province, some form of annual report is required to be tabled in the legislature by departments and the majority of Crown agencies. Unfortunately this Province does not have any accountability legislation or the requirement to table an annual report in the House of Assembly.

## 7. Newfoundland Government Fund Limited

In my 1998-99 Annual Report to the House of Assembly, I reported on the Newfoundland Government Fund Limited which is a Government-administered venture capital fund under the *Immigration Act* (Canada) and Regulations. Under the Canadian Immigrant Investor Program, the Corporation issued an Offering Memorandum in September of 1996 to raise funds from immigrant investors in order to provide loan and equity capital to establish, expand, purchase, maintain or revitalize businesses or commercial ventures in Newfoundland. For the immigrant investors, in addition to earning a nominal return on their capital, their investment in the Corporation helps satisfy a portion of their visa requirements under Canada's Immigrant Investor Program. My previous reports highlighted concerns which I had regarding the Corporation's non-compliance with the *Immigration Act* (Canada) and Regulations and Offering Memorandum.

My review this year indicated that, as of November 2000, the Corporation has invested $9.45 million in two eligible projects - the construction of health care facilities in Bonne Bay and Fogo Island. This $9.45 million represents the proceeds from 54 investors. Since the total investment in the two projects is expected to be $17.70 million based upon the known cost of the Bonne Bay project and the most recent estimate of the Fogo Island project, the Corporation requires an additional $8.25 million to fund the final advances to the projects which represents proceeds from an additional 48 investors.

Based on discussions with Corporation officials and the escrow agent, we determined that it is unlikely that the proceeds from 48 additional units will be available for investment by the Corporation as all visa applications may not be approved. As a result, the Corporation may not have sufficient proceeds to fully fund approved eligible projects. If the Corporation does not realize the investments from the 48 investors, Government may have to enter into alternate financing arrangements in order to complete construction of the two hospital facilities.

### 8. Workplace Health, Safety and Compensation Commission

In 1991, the unfunded liability of the Workplace Health, Safety and Compensation Commission reached $176 million. In that same year, the Commission prepared a financial strategy to address the problem of the increasing unfunded liability. From that time until 1997, the unfunded liability of the Commission had been decreasing. In 1998, the unfunded liability increased but was still in line with the financial strategy prepared in 1991. The Commission's 1999 Annual Report indicated that the unfunded liability had increased significantly from $111 million as at 31 December 1998 to $180 million as at 31 December 1999. As a result, the Commission's unfunded liability as at 31 December 1999 approximates the unfunded liability as at 31 December 1991, when the Commission prepared its strategy to address the problem.

## 1.4 Acknowledgments

I express my appreciation to the officials of Government departments, agencies of the Crown and other entities for the cooperation and assistance provided to my staff during the performance of our work.

I acknowledge the cooperation and assistance provided to my Office during the year by the officials of the Treasury Board Secretariat and the Department of Finance.

I also extend my appreciation to my staff for their outstanding work and the professional manner in which they have carried out their responsibilities.

## Auditor General's Overview

## 2.1 Framework of Accountability

### Introduction

In my previous Reports to the House of Assembly, I expressed concern over the lack of information being provided to the House of Assembly by agencies of the Crown and Memorial University of Newfoundland (the University) which are funded primarily by the public purse. Operating grants paid to hospitals, school boards, other agencies of the Crown and the University by government departments are included in total funding approved for each department by the House of Assembly as part of the annual budgetary process. Having approved this funding, the House of Assembly should then receive information on how this public money was used and what the funding has achieved.

I have recommended the implementation of a legislated accountability framework for all public sector entities in the Province, including government departments, all agencies of the Crown and the University. I have also recommended that the framework include a strategic and operational planning process, clearly defined objectives, measurement criteria, a financial budget and a reporting system which provides appropriate information at various levels. The reporting process should include a report to the House of Assembly.

As a result of my reviews this year, I am still very concerned over the lack of information being provided to the House of Assembly. While considerable attention is given to the government's budget, there is a lack of emphasis on receiving and reviewing how agencies and departments actually spend the monies which were approved during the budget process. Of the 82 Crown agencies, only 4 entities receiving $175.5 million had their reports tabled in the House of Assembly. These four entities received only $175.5 million of total funding of $1.668 billion provided to various Crown agencies. There were no reports tabled in the House of Assembly which related to the remaining $1.493 billion.

**Accountability of Government Departments**

In October 1999, Treasury Board Secretariat issued *Guidelines for the Preparation of the 2000-2001 Estimates and Three-Year-Financial Plan* for Government departments. The process outlined in these Guidelines required that each department prepare an annual business plan, set out performance targets and report annually on the results against these targets. It was intended that the first progress reports for the 1999-00 plan were to be presented to Government by 31 May 2000.

## Comments on Public Sector Accountability

### Accountability of Crown Agencies and Memorial University of Newfoundland

In August 2000 the Treasury Board Secretariat issued *"Achieving Excellence 2000-A Guidebook for Improved Accountability of Public Bodies"* and *"Achieving Excellence 2000 - A Handbook for the Improved Governance of Public Bodies"*. These two documents provide an overview of some key governance principles and are intended as a reference source for public bodies. The documents require that each minister will determine those measures to be applied to specific entities under their jurisdiction. We have reviewed these documents and find that they can serve as a good reference for the various departments and agencies of the Crown to follow in establishing a system whereby they can provide information on their financial and operational results if requested by the minister.

**Summary**

Full accountability requires that Government, its departments, agencies of the Crown and Memorial University of Newfoundland be held accountable to the House of Assembly for their use of public money and the delivery of their programs. The need for true accountability dates back to the time when the democratic system of government was established. A democratic form of government requires as a minimum that government, its departments and agencies of the Crown report annually to the House of Assembly, the same body which provided the monies to fund their programs, on their financial and operational results.

While I am pleased to see that some action has been taken towards developing a framework of accountability, I am extremely concerned with the current state of affairs. I have two concerns:

- The present initiatives for government departments, Crown agencies and Memorial University, are not legislated. With respect to the initiatives for Crown agencies and Memorial University, they are not mandatory in that they are at the discretion of the minister responsible.

- None of the plans, information or reports generated under these initiatives are required to be tabled in the House of Assembly.

Unless the present initiatives are legislated and applied to all government departments, Crown agencies and Memorial University and all information and reports are required to be tabled in the House of Assembly, the current framework is not sufficient to meet the requirements of a true system of accountability.

## Other Jurisdictions

Of the 10 jurisdictions in Canada other than this Province, 8 have some form of accountability legislation which requires tabling of accountability reports in their legislature. In addition, in the other two jurisdictions the requirement to table annual reports is covered by formal policy. Our review has disclosed that in all jurisdictions, except this Province, some form of annual report is being tabled in the legislature by departments and the majority of Crown agencies. Unfortunately this Province does not have any accountability legislation or the requirement to table an annual report in the House of Assembly and very few annual reports are tabled in the Legislature.

## Recommendation

*Government should draft legislation for consideration by the House of Assembly which requires that Government and all of its entities including Memorial University of Newfoundland be held accountable to the Legislature for their use of public resources. This legislation should, as a minimum, require that Government and each of its entities table annual accountability reports in the House of Assembly on their financial and operational results compared with approved plans.*

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## 3.1 Monitoring Agencies of the Crown

### Introduction

As at 31 March 2000 there were approximately 154 (1999 - 152) agencies of the Crown in the Province. Of these, 84 (1999 - 83) were required to prepare annual financial statements while 70 (1999 - 69) were considered non-financial and did not prepare financial statements. Any expenditures related to the operation of these 70 entities are included with those of the Government department responsible for the entity and are audited annually as part of our audit of the Public Accounts of the Province.

Of the 84 entities required to prepare annual financial statements, 30 (1999 - 30) were audited by our Office while 53 (1999 - 52) were audited by private sector auditors and 1 has not completed its first year of operations.

Most of the agencies of the Crown do not have any requirement to report to the House of Assembly on the discharge of their responsibilities. As a result, a major role of this Office is to monitor these entities in order to provide some accountability to the House of Assembly. Section 14 of the *Auditor General Act* requires all private sector auditing firms to submit to our Office a copy of the audited financial statements and any management letters for all agencies of the Crown which they audit. These financial statements and management letters along with our Office's audits of agencies of the Crown provide the basis for our monitoring of all agencies of the Crown. The results of our monitoring activities are as follows.

### Compliance with Section 14

Section 14 of the *Auditor General Act* requires the auditor of an agency of the Crown or a Crown controlled corporation to deliver to the Auditor General, after completion of the audit, a copy of the auditor's report, audited financial statements and recommendations to management. As at 1 December 2000, the required information had not been received from the private sector auditors for 5 of the 53 entities. Figure 1 provides details of the information received.

**Figure 1**

**Monitoring Agencies of the Crown**
**Agencies of the Crown Audited by Private Sector Auditors**
**Information for Years Ended**
**1 May 1999 to 30 April 2000**

| Information | Health Care | Education | Other | Total |
|---|---|---|---|---|
| Audited financial statements received | 16 | 15 | 17 | 48 |
| Audited financial statements not received | 3 | 0 | 2 | 5 |
| Total | 19 | 15 | 19 | 53 |

## 3.1 Monitoring Agencies of the Crown

The five agencies noted in Figure 1, for which we have not received the required information from the private sector auditor, include the following:

- Health Labrador Corporation
- Newfoundland and Labrador Centre for Health Information
- Newfoundland Ocean Enterprises Limited
- Operation ONLINE Inc.
- Pentecostal Assemblies - Clarkes Beach Seniors' Home

To date, information is not being received from the private sector auditors on a timely basis. On average, audits are completed and the auditors' reports signed within three months after year end. However, the audited financial statements and management letters are not sent to our Office until another five months after the audit report date, and in many cases, only after telephone follow-up or written correspondence from our Office.

Our Office was responsible for auditing the financial statements for 30 agencies of the Crown. As at 1 December 2000, the audit of the Fisheries Loan Board of Newfoundland was the only one of 30 entities that had not been completed for the year ended 31 March 2000. This was mainly due to client delays in having information and draft statements available for audit.

### Monitoring of Financial Information

In monitoring all agencies of the Crown, we performed an analytical review of the audited financial statements which were available to us. In order to facilitate useful comparisons and analysis of data, a number of sectors were established for grouping similar entities. These sectors and financial information of the various agencies of the Crown are presented in Figure 2 and Figure 3. These figures do not include separate financial information for four agencies of the Crown subsidiaries that have their financial statements consolidated with their parent agency and the one agency for which no financial information has yet been received.

## 3.1 Monitoring Agencies of the Crown

### Figure 2

### Agencies of the Crown
### Combined Financial Position
### Periods Ended 1 May 1999 to 30 April 2000
### ($000's)

| Sector | Entities | Current Assets | Long-term Assets | Current Liabilities | Long-term Liabilities | Equity |
|---|---|---|---|---|---|---|
| Primary, Elementary and Secondary Education | 12 | $ 35,517 | $ 613,411 | $ 24,858 | $ 95,072 | $ 528,998 |
| College and University | 2 | 70,845 | 178,167 | 182,343 | 17,255 | 49,414 |
| Hospitals and Nursing Homes | 15 | 121,031 | 374,174 | 170,106 | 361,471 | (36,372) |
| Community Health Boards | 4 | 11,637 | 2,480 | 16,357 | 8,551 | (10,791) |
| Financing Entities | 6 | 167,348 | 1,394,579 | 54,796 | 352,992 | 1,154,139 |
| Insurance Entities | 4 | 17,673 | 328,820 | 7,005 | 500,137 | (160,649) |
| Government Enterprises | 10 | 185,010 | 2,036,222 | 177,242 | 1,314,554 | 729,436 |
| Judiciary Entities | 4 | 22,801 | 17,268 | 18,870 | 587 | 20,612 |
| Pension Plans | 2 | 26,067 | 2,535,545 | 16,213 | Nil | 2,545,399 |
| Other Entities | 20 | 288,742 | 410,712 | 25,701 | 345,570 | 328,183 |
| Total Crown Agencies | 79 | $ 946,671 | $7,891,378 | $ 693,491 | $2,996,189 | $5,148,369 |

### Figure 3

### Agencies of the Crown
### Combined Operating Results
### Periods Ended 1 May 1999 to 30 April 2000
### ($000's)

| Sector | Entities | Revenues | Expenditures | Surplus (Deficit) | Provincial Funding |
|---|---|---|---|---|---|
| Primary, Elementary and Secondary Education | 12 | $ 501,537 | $ 534,035 | $ (32,498) | $ 489,753 |
| College and University | 2 | 324,731 | 322,676 | 2,055 | 176,512 |
| Hospitals and Nursing Homes | 15 | 934,608 | 966,670 | (32,062) | 836,823 |
| Community Health Boards | 4 | 150,860 | 154,700 | (3,840) | 149,326 |
| Financing Entities | 6 | 131,617 | 46,376 | 85,241 | Nil |
| Insurance Entities | 4 | 132,656 | 95,593 | 37,063 | 224 |
| Government Enterprises | 10 | 518,264 | 376,881 | 141,383 | 529 |
| Judiciary Entities | 4 | 36,037 | 36,392 | (355) | 5,370 |
| Pension Plans | 2 | 646,254 | 272,870 | 373,384 | Nil |
| Other Entities | 20 | 157,184 | 191,648 | (34,464) | 21,556 |
| Total Crown Agencies | 79 | $ 3,533,748 | $ 2,997,841 | $ 535,907 | $ 1,680,093 |

## 3.1 Monitoring Agencies of the Crown

During our compilation and analysis of the above financial data, the following issues were highlighted:

- Of the 79 (1999 - 78) agencies of the Crown analysed, 21 (1999 - 19) entities reported a total bank indebtedness of $35 million (1999 - $48.8 million).

- Financial information from prior years had to be used for a number of entities because the current audited financial statements had not been submitted to our Office or obtained from other sources. These entities were:

  Health Labrador Corporation
  Newfoundland and Labrador Centre for Health Information
  Newfoundland Ocean Enterprises Ltd
  Operation ONLINE Inc.
  Pentecostal Assemblies - Clarkes Beach Seniors' Home

- Financial information for 31 March 1999 had to be used for the Fisheries Loan Board of Newfoundland as the audit for 31 March 2000 had not been completed. The Private Training Corporation had no previous year's financial information as this is its first year of operations.

- Four private sector auditors noted in their auditors' reports that the entities were not in compliance with generally accepted accounting principles regarding recording and amortization of capital assets. Another report indicated that a qualified opinion was issued because of the exclusion from liabilities of vacation and severance entitlements, and tuition and residence fee revenues. Two reports were qualified because of the inability of the auditor to complete auditing procedures as required by generally accepted auditing standards. One auditor was unable to verify the completeness of revenue and another auditor was unable to verify accounts receivable related to capital grants from the Department of Education.

### Monitoring Management Letters

Section 14 of the *Auditor General Act* requires that management letters prepared by private sector auditors be submitted to our Office. Of the 53 entities audited by private sector auditors, 18 had no management letters issued, 28 had management letters with weaknesses reported, and 7 entities still had their management letters outstanding as they were not yet finalized. Of the management letters received by our Office from the private sector auditors, many reported internal control weaknesses relating to cash, revenue, accounts receivable, inventory, purchasing, capital assets, and segregation of duties. In addition, management letters also identified issues relating to severance and payroll, human resources, pension plan and financial reporting.

Of the 30 agencies of the Crown required to be audited by our Office during 1999-00, 11 entities had management letters issued with no control weaknesses reported, 11 had management letters with weaknesses reported, 7 entities had draft management letters issued but responses are outstanding, and 1 audit has not yet been completed. Examples of significant weaknesses included non-compliance with governing legislation, inadequate controls over capital assets and investment property, insufficient controls over accounts payable, poorly maintained records, information contained in a database was incomplete, and there were a number of issues related to internal control.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

### Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

**Figure 1**

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**Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
($ Millions)**

| Consolidated Revenue Fund Expenditures | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** |
| Salaries And Benefits | 396 | 398 | 401 | 407 | 334 | 361 | 347 | 357 | 359 | 286 | 312 |
| Transportation and Communication | 37 | 35 | 34 | 33 | 30 | 33 | 33 | 32 | 32 | 32 | 37 |
| Supplies | 64 | 62 | 58 | 57 | 49 | 51 | 48 | 48 | 43 | 43 | 50 |
| Professional Services | 76 | 83 | 85 | 101 | 90 | 64 | 57 | 49 | 52 | 55 | 55 |
| Purchased Services | 179 | 163 | 152 | 188 | 172 | 183 | 182 | 146 | 169 | 194 | 239 |
| Property, Furnishings and Equipment | 73 | 71 | 79 | 33 | 24 | 43 | 31 | 19 | 23 | 36 | 39 |
| Loans and Advances | 65 | 62 | 35 | 0 | 0 | 0 | 7 | 0 | 0 | 0 | 0 |
| Allowances and Assistance | 268 | 253 | 282 | 318 | 345 | 372 | 382 | 403 | 385 | 339 | 316 |
| Grants and Subsidies | 1,492 | 1,705 | 1,770 | 1,801 | 1,744 | 1,770 | 1,780 | 1,754 | 2,123 | 1,839 | 1,863 |
| Debt Expenses | 456 | 482 | 488 | 541 | 800 | 904 | 720 | 719 | 766 | 927 | 761 |
| Information Technology | 0 | 0 | 0 | 0 | 0 | 27 | 19 | 20 | 27 | 25 | 25 |
| Bad Debts | 0 | 0 | 0 | 89 | 33 | 33 | 26 | 80 | 28 | 50 | 30 |
| **TOTAL** | **3,106** | **3,314** | **3,384** | **3,568** | **3,621** | **3,841** | **3,632** | **3,627** | **4,007** | **3,826** | **3,727** |

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Source: Consolidated Revenue Fund financial statements

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

During the past year, we obtained expenditure information from Government's accounting system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are provided as follows:

### Grants and Subsidies

Government has established programs which provide grants or subsidies to various agencies of the Crown, private corporations and individuals. These payments are made to health care boards, for the operation of the Province's hospitals, to school boards, for the operation of the Province's schools and teachers' salaries, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain agencies of the Crown for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 shows, by department, payments made for grants and subsidies for the year ended 31 March 2000 totalling $1.863 billion with comparative figures for the year ended 31 March 1999.

As the figure indicates, for the year ended 31 March 1999, payments for grants and subsidies were approximately $1.839 billion and represented approximately 48% of the total expenditures of the Consolidated Revenue Fund. For the year ended 31 March 2000, grants and subsidies amounted to approximately $1.863 billion or approximately 50% of the total expenditures of the Consolidated Revenue Fund.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 2**

**Grants and Subsidies Expenditures**
**By Department**
**Years Ended 31 March**
**($000's)**

| Grants and Subsidies Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Health and Community Services | 1,094,969 | 1,047,572 |
| Education | 663,359 | 680,077 |
| Municipal and Provincial Affairs | 29,859 | 45,612 |
| Human Resources and Employment | 19,059 | 31,519 |
| Development and Rural Renewal | 11,425 | 9,721 |
| Finance | 8,257 | 5,332 |
| Industry, Trade and Technology | 6,350 | 10,742 |
| Works, Services and Transportation | 6,183 | 5,639 |
| Justice | 5,724 | 5,832 |
| Tourism, Culture and Recreation | 5,379 | 10,100 |
| Mines and Energy | 2,797 | 1,138 |
| Forest Resources and Agrifoods | 2,666 | 3,907 |
| Fisheries and Aquaculture | 2,170 | 4,485 |
| Newfoundland and Labrador Housing Corporation | 2,000 | 4,733 |
| Executive Council | 1,518 | 314 |
| Legislature | 660 | 65 |
| Environment and Labour | 81 | 387 |
| Government Services and Lands | 63 | 57 |
| Public Service Commission | 4 | - |
| Reduction in Provision for Municipal Debt Repayment | - | (27,917) |
| **TOTAL** | **1,862,523** | **1,839,315** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of grants and subsidies by the type of entity receiving the payment for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999. The results of this summary are outlined in Figure 3.

**Figure 3**

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**Grants and Subsidies Expenditures**
**By Type of Entity**
**Years Ended 31 March**
**($000's)**

| Types of Entities Receiving Grants and Subsidies | | |
|---|---|---|
| **Type of Entity** | **2000** | **1999** |
| Hospitals and Health Services Boards | 719,116 | 699,716 |
| Teachers Payroll | 342,823 | 353,683 |
| Newfoundland Medical Care Commission | 178,154 | 174,735 |
| Community Health Boards and Related Entities | 178,099 | 155,137 |
| Memorial University of Newfoundland | 131,425 | 130,325 |
| School Boards and Related Entities | 130,741 | 128,661 |
| Provincial College | 56,344 | 42,071 |
| Economic Renewal, Labour Market and Industry Support | 35,532 | 48,623 |
| Municipalities | 29,859 | 45,603 |
| Educational Agencies and Post Secondary Education Support | 8,820 | 6,944 |
| Provincial Information and Libraries Resources Board | 8,285 | 6,364 |
| Ferry Operations and Transportation Grants | 7,692 | 6,577 |
| Labrador Agreement and Native Peoples Support | 6,186 | 6,305 |
| Newfoundland Legal Aid Commission | 5,579 | 5,696 |
| Newfoundland and Labrador Education Investment Corporation | 5,550 | 30,033 |
| Newfoundland Municipal Financing Corporation | 5,000 | 5,000 |
| Marble Mountain Development Corporation | 3,269 | 442 |
| Newfoundland and Labrador Housing Corporation | 2,056 | 4,733 |

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 3 (cont'd)**

| Types of Entities Receiving Grants and Subsidies | | |
|---|---|---|
| **Type of Entity** | **2000** | **1999** |
| Agricultural Development | 1,562 | 2,356 |
| Recreation and Sport | 1,261 | 2,196 |
| Canada Newfoundland Offshore Petroleum Board | 1,162 | 1,016 |
| Culture and Heritage | 997 | 1,510 |
| Special Celebrations Corporation of Newfoundland and Labrador | 670 | 3,319 |
| Newfoundland and Labrador Film Development Corporation | 600 | 550 |
| C. A. Pippy Park Commission | 17 | 300 |
| Marystown Shipyard Subsidy | - | 3,496 |
| 1999 Corner Brook Winter Games Host Society | - | 593 |
| Newfoundland Farm Products Corporation | - | 443 |
| Other Miscellaneous Grants | 1,724 | 805 |
| Reduction in Provision for Municipal Debt Retirement | - | (27,917) |
| **TOTAL** | **1,862,523** | **1,839,315** |

Source: Government's Financial Information System

Figure 4 provides the names of all entities which received funding in excess of $10 million for the year ended 31 March 2000 or the year ended 31 March 1999.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 4**

**Grants and Subsidies Expenditures**
**Payments in Excess of $10 million**
**Years Ended 31 March**
**($000's)**

| Entities Which Received in Excess of $10 Million | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Health Care Corporation of St. John's | 312,407 | 290,549 |
| Newfoundland Medical Care Commission | 178,154 | 174,735 |
| Memorial University of Newfoundland | 131,425 | 130,325 |
| Western Health Care Corporation | 89,341 | 100,153 |
| Community Health - St. John's | 60,202 | 53,373 |
| Central West Health Care Corporation | 57,815 | 55,032 |
| College of the North Atlantic | 56,344 | 42,071 |
| St. John's Nursing Home Board | 45,722 | 21,332 |
| Central East Health Care Corporation | 43,431 | 42,892 |
| Avalon Health Care Corporation | 40,813 | 35,323 |
| Peninsulas Health Care Corporation | 39,881 | 41,850 |
| Labrador Health Services Board | 31,051 | 25,881 |
| Eastern Regional Community Health Board | 29,601 | 35,018 |
| Western Newfoundland Regional Community Health Board | 29,601 | 13,115 |
| Central Newfoundland Regional Community Health Board | 28,896 | 31,238 |
| Grenfell Regional Health Care Corporation | 28,499 | 26,625 |
| District #10 School Board | 25,940 | 27,762 |
| Canadian Blood Services | 13,710 | 12,290 |
| Avalon West School Board | 12,423 | 12,538 |
| School District #6 | 11,267 | 11,123 |

**Figure 4 (cont'd)**

| Entities Which Received in Excess of $10 Million | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| School District #5 | 11,243 | 11,032 |
| Newfoundland and Labrador Education Investment Corporation | 5,550 | 30,033 |
| St. Luke's Home | 0 | 20,819 |
| Reduction in Provision for Municipal Debt Retirement | 0 | (27,917) |
| Grants under $10 million paid to over 6,300 entities or individuals in 2000 (1999 - over 4,400 entities or individuals) | 579,207 | 622,123 |
| **TOTAL** | **1,862,523** | **1,839,315** |

Source: Government's Financial Information System

## Property, Furnishings and Equipment

The Property, Furnishings, and Equipment category generally includes capital items such as equipment purchased for use by Government departments which will have a service life in excess of one year. This category also includes grants made by the Department of Health to the various hospital and health care boards for the purchase of equipment. During the year ended 31 March 2000, the Province paid $24.9 million (1999 - $27.4 million) to the hospital and health care boards for equipment which is included in the property, furnishings and equipment category. As indicated in Figure 1, payments for property, furnishings and equipment totalled $39 million for the year ended 31 March 2000. Figure 5 shows, by department, payments made for property, furnishings and equipment for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 5**

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**Property, Furnishings and Equipment Expenditures**
**By Department**
**Years Ended 31 March**
**($000's)**

| Property, Furnishings and Equipment Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Health | 24,942 | 27,438 |
| Works, Services and Transportation | 8,502 | 4,703 |
| Forest Resources and Agrifoods | 1,700 | 1,116 |
| Education | 1,055 | 570 |
| Justice | 751 | 592 |
| Tourism, Culture and Recreation | 486 | 373 |
| Government Services and Lands | 263 | 238 |
| Environment and Labour | 140 | 38 |
| Municipal and Provincial Affairs | 135 | 464 |
| Mines and Energy | 134 | 71 |
| Development and Rural Renewal | 121 | 86 |
| Executive Council | 118 | 84 |
| Human Resources and Employment | 108 | 85 |
| Fisheries and Aquaculture | 104 | 240 |
| Industry, Trade and Technology | 66 | 95 |
| Finance | 36 | 36 |
| Public Service Commission | 20 | 6 |
| Legislature | 18 | 19 |
| Consolidated Fund Services | 11 | 1 |
| **TOTAL** | **38,710** | **36,255** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for property, furnishings and equipment to show all entities which received payments in excess of $1 million for the year ended 31 March 2000 or the year ended 31 March 1999. These entities are listed in Figure 6.

**Figure 6**

**Property, Furnishings and Equipment Expenditures**
**Payments in Excess of $1 million**
**Years Ended 31 March**
**($000's)**

| Entities Which Received in Excess of $1 Million | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Health Care Corporation of St. John's | 12,592 | 8,125 |
| Hickman Motors Limited | 2,742 | 1,301 |
| Western Health Care Corporation | 2,725 | 4,775 |
| Field Aviation Company Limited | 2,000 | - |
| Central West Health Care Corporation | 1,310 | 1,023 |
| The Salvation Army | 1,176 | 1,176 |
| Peninsulas Health Care Corporation | 1,154 | 2,969 |
| Central East Health Care Corporation | 1,114 | 428 |
| Avalon Ford Sales Limited | 1,086 | 928 |
| Metalwork Ltd. | 1,040 | 865 |
| College of the North Atlantic | 1,000 | 500 |
| Labrador Health Services Board | 460 | 1,363 |
| Newfoundland and Labrador Health Care Association | 0 | 5,000 |
| Sisters of Mercy Generalate | 0 | 750 |
| Royal Garage Limited | 0 | 54 |
| Payments under $1 million to over 500 entities in 2000 (1999 - 490 entities) | 10,311 | 6,998 |
| **TOTAL** | **38,710** | **36,255** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

### Purchased Services

Purchased services includes such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled $239 million for the year ended 31 March 2000. Figure 7 shows, by department, payments made for purchased services for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999.

**Figure 7**

**Purchased Services Expenditures**
**By Department**
**Years Ended 31 March**
**($000's)**

| Purchased Services Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Works, Services and Transportation | 194,087 | 151,497 |
| Education | 9,354 | 5,775 |
| Forest Resources and Agrifoods | 8,093 | 8,933 |
| Tourism, Culture and Recreation | 5,960 | 5,361 |
| Justice | 5,162 | 5,123 |
| Municipal and Provincial Affairs | 3,752 | 3,077 |
| Government Services and Lands | 2,111 | 1,985 |
| Human Resources and Employment | 1,782 | 1,624 |
| Development and Rural Renewal | 1,578 | 2,232 |
| Industry, Trade and Technology | 1,518 | 3,060 |
| Executive Council | 1,104 | 1,139 |
| Fisheries and Aquaculture | 1,022 | 1,325 |
| Mines and Energy | 1,019 | 456 |
| Legislature | 616 | 829 |
| Environment and Labour | 554 | 552 |
| Consolidated Fund Services | 519 | 389 |
| Health and Community Services | 482 | 615 |
| Finance | 197 | 254 |
| Public Service Commission | 178 | 203 |
| **TOTAL** | **239,088** | **194,429** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments for purchased services to show all entities which received payments in excess of $1 million for the year ended 31 March 2000 or the year ended 31 March 1999. These entities are listed in Figure 8.

**Figure 8**

**Purchased Services Expenditures**
**Payments in Excess of $1 million**
**Years Ended 31 March**
**($000's)**

| Entities Which Received in Excess of $1 Million | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| S M Construction | 21,809 | 16,962 |
| Colby Construction Ltd. | 13,784 | 4,205 |
| Labrador Construction Limited | 10,733 | 5,958 |
| Penny Paving | 8,744 | 4,102 |
| Municipal Construction Ltd. | 7,910 | 5,911 |
| Western Construction Co. Ltd | 7,167 | 7,285 |
| MCNamara Construction Company | 6,888 | 4,099 |
| Newfoundland Power | 5,858 | 5,714 |
| Marco Services Ltd | 5,291 | - |
| Canship Limited | 4,311 | 1,810 |
| 10663 Newfoundland Limited | 3,780 | 3,817 |
| H.J.O'Connell Construction Ltd. | 3,595 | 220 |
| J-1 Contracting Limited | 3,377 | 3,839 |
| Provincial Paving | 3,329 | 4,257 |
| Tristar Mechanical Ltd. | 3,273 | - |
| Bristol Communications Ltd. | 3,219 | 2,199 |
| Johnson Construction Ltd. | 3,109 | 1,936 |
| Terra Nova Industries Ltd. | 2,980 | - |
| Humber Valley Paving | 2,935 | 1,599 |
| College of the North Atlantic | 2,895 | 2,742 |
| BCL Construction Ltd. | 2,297 | 956 |
| Central East Health Care Board | 2,110 | 2,096 |
| Northern Cruiser Ltd. | 1,945 | 1,623 |
| Pyramid Construction | 1,862 | 3,567 |
| Coady's Construction and Excavating Ltd. | 1,814 | 2,283 |

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 8 (cont'd)**

| Entities Which Received in Excess of $1 Million | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| RDN Construction | 1,799 | 1,604 |
| Council of Higher Education | 1,637 | 285 |
| Northland Contracting Inc. | 1,631 | 139 |
| Brook Enterprises Inc. | 1,586 | 1,982 |
| Friede Goldman Newfoundland Ltd. | 1,545 | 613 |
| Newfound Construction Ltd. | 1,508 | 811 |
| Adams Construction (1975) Ltd. | 1,483 | 820 |
| Glenn Corp Ltd. | 1,437 | 1,438 |
| Irving Oil | 1,450 | 443 |
| Mariner Engineering | 1,345 | 1,679 |
| Memorial University of Newfoundland | 1,244 | 588 |
| J&H Marsh & McLennan Limited | 1,238 | 1,581 |
| Abitibi Consolidated Inc. | 1,217 | 730 |
| Marine Contractors Inc. | 1,180 | 1,594 |
| Puddister Trading Company Ltd. | 1,122 | 1,210 |
| Nova Services Ltd. | 1,100 | 1,167 |
| Concord Paving Limited | 1,059 | 353 |
| Fisheries Marine Institute | 1,044 | 153 |
| Trident Construction Limited | 765 | 3,023 |
| Pennecon Ltd | 534 | 4,606 |
| St. John's Dockyard Limited | 529 | 2,309 |
| Budgells Equipment and Rental | 462 | 1,036 |
| Weirs Construction Co Ltd | 218 | 2,941 |
| Barkers Construction Limited | 174 | 1,308 |
| Target Marketing Inc. | - | 1,999 |
| Newfoundland and Labrador Forestry Training Association | - | 1,437 |
| Land and Sea Welding Limited | - | 1,318 |
| Payments under $1 million to over 5,400 entities or individuals (1999 - 5,600 entities or individuals) | 76,766 | 70,082 |
| **TOTAL** | **239,088** | **194,429** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

### Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to Government. As indicated in Figure 1, payments for professional services totalled $55 million for the year ended 31 March 2000. Figure 9 shows, by department, payments made for professional services for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999.

**Figure 9**

**Professional Services Expenditures**
**By Department**
**Years Ended 31 March**
**($000's)**

| Professional Services Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Justice | 38,170 | 36,401 |
| Works, Services and Transportation | 5,164 | 3,994 |
| Consolidated Fund Services | 3,102 | 5,469 |
| Health and Community Services | 1,555 | 1,611 |
| Environment and Labour | 1,536 | 1,337 |
| Municipal and Provincial Affairs | 939 | 840 |
| Executive Council | 700 | 943 |
| Forest Resources and Agrifoods | 700 | 554 |
| Development and Rural Renewal | 665 | 642 |
| Mines and Energy | 649 | 437 |
| Industry, Trade and Technology | 407 | 399 |
| Education | 393 | 216 |
| Tourism, Culture and Recreation | 352 | 252 |
| Human Resources and Employment | 318 | 395 |
| Public Service Commission | 120 | 112 |
| Legislature | 114 | 65 |
| Government Services and Lands | 102 | 498 |
| Finance | 98 | 195 |
| Fisheries and Aquaculture | 42 | 129 |
| **TOTAL** | **55,126** | **54,489** |

Source: Government's Financial Information System

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

We also summarized the payments of professional services to show all entities which received payments in excess of $100,000 for the year ended 31 March 2000 or the year ended 31 March 1999. These entities are listed in Figure 10.

**Figure 10**

**Professional Services Expenditures**
**Entities paid in Excess of $100,000**
**Years Ended 31 March**
**($000)'s**

| Entities Which Received in Excess of $100,000 | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Receiver General For Canada (RCMP Contract etc.) | 35,254 | 35,126 |
| Newfoundland Design Associates Ltd. | 1,065 | 684 |
| xwave (Newtel Information Solutions) | 1,008 | 922 |
| Agra Monenco Atlantic Inc. | 776 | 247 |
| Bae-Newplan Group Ltd | 695 | 878 |
| EDM Consultants | 573 | 82 |
| The SGE Group Inc. | 367 | 324 |
| Jacques Whitford Environment | 354 | 574 |
| Agra Earth | 336 | 74 |
| William MacCallum Architect | 299 | 114 |
| Graham Watton and Company | 281 | - |
| Trans Cycle Industries Inc. | 257 | - |
| Penninsulas Health Care Corporation | 256 | 57 |
| Patterson Palmer Hunt Murphy | 247 | 316 |
| Health Care Corporation of St. John's | 244 | 181 |
| A E Consultants Ltd | 205 | 28 |
| Browne Fitzgerald | 189 | - |
| Facilities Design | 156 | 86 |
| Walbourne Design Associates | 148 | 110 |
| Singleton Urguhart Scott | 140 | 19 |

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 10 (cont'd)**

| Entities Which Received in Excess of $100,000 | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Miller Thomson | 130 | - |
| Miller and Hearn | 112 | 8 |
| KPMG | 110 | 10 |
| Benson Myles | 106 | 164 |
| Misoco | 99 | 110 |
| Chalker, Green and Rowe | 89 | 126 |
| Terpstra and Associates | 45 | 106 |
| Goss Gilroy Inc. | 19 | 223 |
| Central East Health Care Board | 1 | 189 |
| Newfoundland Government Fund | - | 395 |
| Stratcona Mineral Service Ltd. | - | 269 |
| Blue Cross of Atlantic Canada | - | 127 |
| A D Tupper and Associated Ltd. | - | 122 |
| Payments under $100,000 to over 780 entities or individuals (1999 - 750 entities or individuals) | 11,565 | 12,818 |
| **TOTAL** | **55,126** | **54,489** |

Source: Government's Financial Information System

### Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as: allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled $316 million for the year ended 31 March 2000. Figure 11 shows, by department, payments made for allowances and assistance for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 11**

**Allowances and Assistance Expenditures**
**By Department**
**Years Ended 31 March**
**($000's)**

| Allowances and Assistance Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Human Resources and Employment | 219,058 | 235,334 |
| Health and Community Services | 65,802 | 71,680 |
| Education | 22,697 | 19,654 |
| Legislature | 4,891 | 4,354 |
| Justice | 2,981 | 7,782 |
| Works, Services and Transportation | 252 | 190 |
| Municipal and Provincial Affairs | 175 | 182 |
| Public Service Commission | 112 | 84 |
| Environment and Labour | 60 | 118 |
| Executive Council | 32 | 32 |
| Forest Resources and Agrifoods | 20 | 20 |
| Tourism, Culture and Recreation | 0 | 2 |
| **TOTAL** | **316,080** | **339,432** |

Source: Government's Financial Information System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of $500,000 for the year ended 31 March 2000 or the year ended 31 March 1999. These entities are listed in Figure 12.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 12**

**Allowances and Assistance Expenditures**
**Entities paid in Excess of $500,000**
**Years Ended 31 March**
**($000's)**

| Individuals or Entities Which Received in Excess of $500,000 | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Health Care Corporation of St. John's | 1,191 | 1,252 |
| Chalker, Green and Rowe (In Trust) | 1,000 | - |
| Memorial University of Newfoundland | 745 | 768 |
| O'Dea Earle | 712 | - |
| Fewers Ambulance Service | 581 | 541 |
| Association for New Canadians | 542 | - |
| Newfoundland and Labrador Housing Corporation | 88 | 2,088 |
| Cox, Hanson O'Reilly | 0 | 4,200 |
| Heywood, Kennedy, Belbin | 0 | 1,750 |
| Moores, Andrews | 0 | 1,221 |
| Miscellaneous amounts under $500,000 paid to entities or individuals | 311,221 | 327,612 |
| **TOTAL** | **316,080** | **339,432** |

Source: Government's Financial Information System

### Transportation and Communications

Transportation and communications expenditures include costs relating to such items as: postage, freight, ambulance and air services, telecommunication services and travel for ministers, government employees and others. As indicated in Figure 1, payments for transportation and communications totalled $37 million for the year ended 31 March 2000. Figure 13 shows, by department, payments made for transportation and communications for the year ended 31 March 2000 with comparative figures for the year ended 31 March 1999.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

Figure 13

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**Transportation and Communications**
**Expenditures By Department**
**Years Ended 31 March**
**($000's)**

| Transportation and Communications Expenditures by Department | | |
|---|---|---|
| **Department** | **2000** | **1999** |
| Works, Services and Transportation | 9,129 | 6,156 |
| Forest Resources and Agrifoods | 6,581 | 4,885 |
| Justice | 3,229 | 3,155 |
| Human Resources and Employment | 2,354 | 1,975 |
| Government Services and Lands | 2,013 | 1,978 |
| Education | 1,903 | 1,887 |
| Tourism, Culture and Recreation | 1,878 | 1,640 |
| Executive Council | 1,819 | 1,525 |
| Mines and Energy | 1,301 | 1,165 |
| Fisheries and Aquaculture | 1,130 | 1,037 |
| Development and Rural Renewal | 1,015 | 937 |
| Environment and Labour | 1,012 | 872 |
| Health and Community Services | 969 | 1,169 |
| Industry, Trade and Technology | 948 | 852 |
| Municipal and Provincial Affairs | 683 | 670 |
| Finance | 640 | 833 |
| Legislature | 511 | 711 |
| Consolidated Fund Services | 186 | 158 |
| Public Service Commission | 146 | 115 |
| **TOTAL** | **37,447** | **31,720** |

Source: Government's Financial Information System

We also summarized the payments for transportation and communications to show all entities or individuals which received payments in excess of $100,000 for the year ended 31 March 2000 or the year ended 31 March 1999. These entities or individuals are listed in Figure 14.

## 3.2 Monitoring Expenditures of the Consolidated Revenue Fund

**Figure 14**

**Transportation and Communications Expenditures**
**Entities Paid in Excess of $100,000**
**Years Ended 31 March**
**($000's)**

| Entities Which Received in Excess of $100,000 | | |
|---|---|---|
| **Entity** | **2000** | **1999** |
| Newfoundland Telephone Company (Contract) | 4,722 | 4,388 |
| Universal Helicopters Nfld. Ltd | 3,686 | 2,034 |
| Postage by Phone | 2,047 | 2,143 |
| Newtel Communications Inc. | 1,699 | 1,630 |
| 10663 Nfld Limited | 1,113 | - |
| Canadian Helicopters Limited | 1,047 | 653 |
| Newtel Mobility Limited | 1,015 | 1,197 |
| Harvey's Travel | 800 | 794 |
| Canada Post Corporation | 641 | 713 |
| Legrow's Travel | 419 | 401 |
| Newfoundland Helicopters Ltd. | 362 | 326 |
| Newfoundland and Labrador Air Transport Ltd. | 360 | 354 |
| Telemedicine Centre | 342 | 146 |
| Provincial Airlines Limited | 315 | 457 |
| Gouverment Du Quebec | 244 | - |
| Newfoundland and Labrador Hydro | 180 | 195 |
| City of St. John's | 176 | 167 |
| Cougar Helicopters Ltd. | 161 | - |
| Cougar Execujet | 142 | - |
| Expandair | 115 | - |
| Hiteck Communications Ltd. | 112 | 16 |
| Supermarine Aircraft | - | 130 |
| Miscellaneous amounts under $100,000 paid to over 7,300 individuals or entities (1999 - 8,700 individuals or entities) | 17,749 | 15,976 |
| **TOTAL** | **37,447** | **31,720** |

Source: Government's Financial Information System

## 3.3 Government's Results of Financial Operations

### Introduction

The Provincial budget outlines Government's budgeted revenues and expenditures and its surplus or deficit for the fiscal year on a cash basis. Once the year is over, Government reports its actual revenues and expenditures and its surplus or deficit and compares them to what was budgeted.

This year I am again expressing my concern with the manner in which the Government is calculating its surplus or deficit. Specifically, I am concerned about the way Government can "adjust" its actual revenues and expenditures to achieve whatever surplus or deficit it desires. The following outlines my concerns:

**Special Warrants**

Special warrants are used to make payments not approved in the initial budget and increase Government expenditures and decrease the Government's surplus. I have expressed concerns since 1997 that many of the special warrants issued each year did not meet the requirements of the *Financial Administration Act.* The use of special warrants provides Government with the flexibility to "adjust" its cash surplus or deficit and produce a result it desires. Special warrants issued in contravention of the *Financial Administration Act* since 1997 are as follows:

| | |
|---|---|
| 1997 | $36.9 million |
| 1998 | $30.9 million |
| 1999 | $95.0 million |
| 2000 | $70.8 million |

A portion of these special warrants placed cash in certain Crown agencies which can, at any later date, be used to fund expenditures without approval of the House of Assembly.

**Dividends - Newfoundland and Labrador Hydro**

Included in Government's budgeted revenues are dividends from Newfoundland and Labrador Hydro. However, the amount actually received and reported as revenue is determined at the discretion of Government and provides Government with the flexibility to "adjust" the cash surplus or deficit and produce a result it desires. The following indicates the dividends budgeted each year and the amount the Government received and reported:

## 3.3 Government's Results of Financial Operations

| Year | Budget | Actual | Difference |
|---|---|---|---|
| 1997 | $32 million | $17 million | $15 million |
| 1998 | $47 million | $17 million | $30 million |
| 1999 | $69 million | $17 million | $52 million |
| 2000 | $146 million | $70 million | $76 million |

As this indicates, Government has decided each year since 1997 to take significantly less dividend income from Hydro thus decreasing its cash surplus.

**Sinking Funds**

In December 1999, Government amended the *Financial Administration Act* to direct that, if money in a sinking fund is not required to redeem an issue of securities, the money may be paid into the Consolidated Revenue Fund as the Lieutenant-Governor in Council may direct. As a result, the amount of money recorded as sinking fund earnings is totally at the discretion of Government. This provides Government with the flexibility to "adjust" the cash surplus or deficit and produce a result it desires.

For example, in 1999-2000, Government budgeted $35.6 million as available sinking fund earnings. However, Government only recorded $10.3 million, even though the remaining $25.3 million was available. As a result, Government was able to "adjust" its cash surplus to produce the result it desired.

**Guarantee Fees - Newfoundland and Labrador Hydro**

When Government provides a guarantee to an entity, it charges an annual fee equal to 1% of the guarantee. However, in the case of Newfoundland and Labrador Hydro, the amount actually received and reported as revenue is determined at the discretion of Government and again provides Government with the flexibility to "adjust" the cash surplus or deficit and produce a result it desires. The following indicates the guarantee fee budgeted for Newfoundland and Labrador Hydro each year and the amount the Government received and reported:

| Year | Budget | Actual | Difference |
|---|---|---|---|
| 1997 | $18.7 million | $10.8 million | $7.9 million |
| 1998 | $18.9 million | $11.2 million | $7.7 million |
| 1999 | $10.8 million | $11.3 million | $(.5) million |
| 2000 | $18.9 million | $10.9 million | $8.0 million |

## 3.3 Government's Results of Financial Operations

### Summary

Figure 2 shows the cash surplus before the above adjustments. In addition, the Figure shows the cash surplus which was reported after the above adjustments and compares it to the cash budget.

**Figure 2**

**Consolidated Revenue Fund**
**Reported Deficits/Surpluses**
**Years Ended 31 March**
**(000's)**

| Year | Cash Surplus Before Adjustments | Special Warrants | Hydro Dividends | Sinking Funds | Hydro Guarantee Fees | Cash Surplus/(Deficit) Reported | Cash (Deficit)/Surplus Projected in the Budget |
|---|---|---|---|---|---|---|---|
| 1997 | 38.6 | 36.9 | 15.0 | 0 | 7.9 | (21.2) | (44.8) |
| 1998 | 57.6 | 30.9 | 30.0 | 0 | 7.7 | (11.0) | (20.3) |
| 1999 | 156.6 | 95.0 | 52.0 | 0 | (0.5) | 10.1 | (10.0) |
| 2000 | 167.1 | 70.8 | 76.0 | 25.3 | 8.0 | (13.0) | (33.3) |

As this Figure shows, the use of special warrants and the deferral of Hydro dividends, sinking fund earnings, and the Hydro guarantee fee have had a significant impact on the Government's deficit during the past 4 years.

For the 1999-2000 fiscal year, if Government had not issued special warrants in contravention of the *Financial Administration Act* and had received Hydro dividends, sinking funds and guarantee fees in the amounts it had budgeted, it would have reported a cash surplus of $167.1 million rather than a cash deficit of $13.0 million.

### Treasury Board Secretariat's Response

#### *Special Warrants*

*The Legislation has granted authority to Government to issue Special Warrants when certain circumstances are met. This authority is clearly outlined in the Financial Administration Act. We believe that the Special Warrants meet the requirements of the Financial Administration Act. The* *need for Special Warrants will inevitably arise from time to time, and Special Warrants have, in fact, been issued in most years. Our financial condition is subject to a high degree of dependence on federal transfer payments which are by their nature highly volatile. Over the years, given higher revenues than expected, towards year end Government has utilized the Special Warrants mechanism to make some expenditures that they felt served the public good. This was in an effort to avail of year-end flexibility and provide for a stable financial performance.*

*Again, Special Warrants which resulted in payments to Crown entities, were made in accordance with legislation. Crown agencies are created to enable specific programs to be carried out in an efficient and effective manner with a reasonable degree of autonomy while still being accountable to Government. Payments are made to Crown agencies to permit those entities to carry on with their mandate. The expenditures of these Crowns are not specifically approved by the House of Assembly, but this is common practice in all jurisdictions in Canada.*

***Dividends - Newfoundland and Labrador Hydro***

*Dividends can only be paid to the Consolidated Revenue Fund (CRF) upon approval of the Board of Directors of Newfoundland and Labrador Hydro (Hydro). As you have indicated, they cannot be recognized in the CRF on a cash basis until received. There are other factors such as Hydro's financial/cash position which could impact upon actual dividends paid in a particular year. It should be noted that the Government presents all of Hydro's earnings in its audited Consolidated Summary Financial Statements. In addition, in the Budget 1999, Government clearly stated that it had deferred Hydro revenues thereby publicly disclosing this matter.*

***Sinking Funds***

*As you have indicated, on a cash basis, sinking fund earnings can only be recognized when received by the CRF. This has been the accepted practice of accounting for these transactions since inception of the Sinking Fund. In the Public Accounts, Volume II, all of the earnings of the Sinking Fund are recorded as earned, on an accrual basis. The timing of the payment into the CRF of sinking fund earnings not required to redeem related debt also provided Government with some fiscal flexibility. We do not believe there is anything inappropriate about managing the receipt of sinking fund surpluses within the context of Government's overall financial management plan.*

## 3.3 Government's Results of Financial Operations

***Guarantee Fees - Newfoundland and Labrador Hydro***

*The 1999-2000 Budget Estimates comprised the annual 1% guarantee fee charged to Hydro, plus an acceleration of a portion of the guarantee fee related to the following fiscal year. Due to higher than anticipated federal transfers, payment of the "accelerated" fee could be deferred, again providing additional financial flexibility.*

***Summary***

*The fiscal environment in which Government operates, both within the Province and in the international bond markets, is by its nature dynamic and subject to change by factors often not within Government's control. Consequently, it is sound fiscal management to have some limited degree of flexibility to manage Government's finances. Similar to parent companies in the private sector, Government naturally would exercise its discretion as the owner of Newfoundland and Labrador Hydro with respect to dividends; and with respect to managing its Sinking Funds and so forth. Government made its intentions public in the Budget 1999, wherein it was stated "...we have been selectively deferring revenue to future years when it will be needed to fund public services." Again in the Budget 2000 Government stated, in relation to the actual 1999-2000 deficit "...We could have recorded a significant surplus of $166.2 million... While recording a large surplus may have been a notable event in the short term, we are managing the finances of this Province for the long term and for the future sustainability of our social programs...".*

*It is incumbent upon Government to exercise sound financial management in meeting its financial objectives. In any given year there may be unbudgeted increases in revenues that provide additional expenditure opportunities. Conversely there may be decreased revenues from some sources which may have to be offset by increased taxation or reduced expenditures. Government must consider all options in any given year. The credit rating agency, Moody's Investors Services, has commented positively on Government's commitment to fiscal balance and in this context, in an April 2000 report made reference to "...the province's use of contingency reserves in budgeting, reasonably revenue estimates, revenue deferrals and acceleration of year-end spending as additional tools to be relied upon to enhance near-term financial flexibility."*

*To isolate several specific transactions and suggest that the surplus/deficit could have been different on a cash basis does not consider the whole realm of financial activity of Government and the need to ensure as much stability as possible in our financial plan.*

## 3.3 Government's Results of Financial Operations

*In reality, the combination of all transactions between the departments, the Crown agencies and the public for the year are consolidated in the audited Consolidated Summary Financial Statements regardless of the entity in which assets such as cash, liabilities, revenues and expenses are recorded. The Public Accounts are tabled in the House of Assembly and are made available to the public in hard copy and on the web.*

*The Special Warrants referred to are not in contravention of* The Financial Administration Act*, as there is clear authority for them in the act.*

## 3.4 Special Warrants

### Introduction

The common parliamentary means of providing spending authority to government is through the annual passing of supply acts. This involves having the Members of the House of Assembly vote on the government's funding requests before the spending authority is provided. Approval by a majority of the Members of the House of Assembly is needed to pass an Act.

Through the use of a "special warrant", Government can, without the prior approval of the Members of the House of Assembly, spend public money. Section 28 of the *Financial Administration Act* outlines two instances where a special warrant can be approved and additional funding can be provided to Government.

- Where the sum appropriated by the Legislature for a continuing service is insufficient to meet requirements and there are no countervailing savings available, and **the necessity is urgent.** (Section 28(2))

- Where the Legislature is not in session or when the House of Assembly has been adjourned for more than 30 days, and an expenditure not foreseen and not provided for by the Legislature for a new service is urgently and immediately required for the public good. The minister having charge of the new service must be of the opinion that **the necessity is urgent** and if not made, grave damage to the interests of the Crown or the public will result. (Section 28(3))

The *Financial Administration Act* also requires that each Minute of Council authorizing a special warrant quote the special reasons for doing so, and a certified copy of the Minute of Council and the special warrant has to be tabled in the House of Assembly. In the case of a special warrant issued under subsection (2) while the Legislature is in session, tabling is required within 3 days of the issue of the special warrant. In all other cases, tabling is required within 15 days from the opening of the next ensuing session of the House of Assembly.

Figure 1 provides information on special warrants issued over the past eight years.

## 3.4 Special Warrants

**Figure 1**

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**Special Warrants**
**Years Ended 31 March**

| Year | Total number of Special Warrants | Total Special Warrants | Special Warrants Issued in March of each Year |
|---|---|---|---|
| 1993 | 7 | $42,360,000 | $2,500,000 |
| 1994 | 2 | 40,000,000 | 3,500,000 |
| 1995 | 13 | 57,855,000 | 30,381,700 |
| 1996 | 10 | 32,516,000 | 4,100,000 |
| 1997 | 7 | 75,700,000 | 75,700,000 |
| 1998 | 13 | 88,601,000 | 34,567,000 |
| 1999 | 14 | 136,051,900 | 123,824,000 |
| 2000 | 7 | 70,838,500 | 70,838,500 |
| **Totals** | **73** | **$543,922,400** | **$345,411,200** |

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Source: Public Accounts of the Province

### Findings

As Figure 1 indicates, there were 7 special warrants totalling $70.8 million issued in the 1999-2000 all of which were issued in March 2000. Figure 2 provides information on each these special warrants all of which were, in my opinion, issued in contravention of the Financial Administration Act in that they were not urgently required and the House of Assembly was in session when the funds were distributed.

## 3.4 Special Warrants

**Figure 2**

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**Special Warrants by Department**
**Year Ended 31 March 2000**

| Date of Special Warrant | Department | Details | | Total |
|---|---|---|---|---|
| 10 March 2000 | Education | Grant to Memorial University of Newfoundland for the Memorial University Opportunity Fund | | $3,000,000 |
| 10 March 2000 | Education | Grant to Newfoundland and Labrador Education Investment Corporation | | 5,550,000 |
| 10 March 2000 | Health and Community Services | Grants to a number of entities for the following:<br>Community Services - Grants<br>Health Facilities Operations - Grants<br>Health Care Facilities and Equipment<br>Health Care Facilities -Grants<br>Total | <br>$ 5,050,000<br>11,600,000<br>18,388,500<br>8,650,000<br>$43,688,500 | 43,688,500 |
| 10 March 2000 | Tourism, Culture and Recreation | Operating Grant - Heritage Foundation of Newfoundland and Labrador | | 400,000 |
| 10 March 2000 | Finance | Grants for Crown Agencies as follows:<br>Newfoundland Municipal Financing Corporation<br>Marble Mountain Development Corporation<br>Total | <br>$5,000,000<br>3,060,000<br>$ 8,060,000 | 8,060,000 |
| | | Total Special Warrants issued 10 March 2000 | | 60,698,500 |
| 29 March 2000 | Works, Services and Transportation | Funds for hospital construction projects as follows:<br>Bonne Bay Hospital<br>Old Perlican Hospital<br>Fogo Island Hospital<br>Total | <br>$ 850,000<br>900,000<br>450,000<br>$2,200,000 | 2,200,000 |
| 29 March 2000 | Education | Grants to the University and Provincial College as follows:<br>Memorial University Operations<br>Provincial College Operations<br>Provincial College Training Programs<br>Total | <br>$490,000<br>5,000,000<br>2,450,000<br>$7,940,000 | 7,940,000 |
| | | Total Special Warrants issued 29 March 2000 | | 10,140,000 |
| | | Total Special Warrants issued for the 1999-2000 Year | | $70,838,500 |

The seven special warrants issued during the year ended 31 March 2000 were tabled in the Legislature on 30 March 2000 to meet the requirements of the *Financial Administration Act*. As at November 2000 a Supplementary Supply Act covering the $70.8 million in special warrants issued during the 1999-2000 year had not been tabled in the Legislature.

## 3.4 Special Warrants

**Nature of Funding Provided Under Special Warrants**

In my opinion the $70.8 million in special warrants issued in 1999-2000 were issued in contravention of the *Financial Administration Act*. My opinion is based on a review of the circumstances surrounding the issuance of the $70.8 million in special warrants.

We identified delays between the date on which the special warrants were authorized, the dates that the cheques were issued and the dates the cheques were deposited. In addition, we noted that the House of Assembly was sitting during the period when the funds were issued. Since, in my opinion, the funding was not urgently required, it should have been included either in a Supplementary Supply Act for 1999-2000 and presented to the House of Assembly for approval in that year or included in the 2000-2001 budget. In my opinion, these special warrants were not issued in accordance with the requirements of the *Financial Administration Act* which requires that there must be an urgent requirement for the funding.

The special warrants totalling $70.8 million is comprised of $60.7 million issued on 10 March and $10.1 million issued on 29 March. My review of these special warrants indicated the following:

**10 March 2000 ($60.7 million)**

- On 10 March 2000, special warrants totalling $60.7 million were issued for various departments as outlined in Figure 2. However, payment documents supporting the expenditures were not prepared until 27 March to 30 March, a delay of more than two weeks.

- Although the special warrants totalling $60.7 million were issued on 10 March 2000, cheques for the $60.7 million of special warrants were not issued until 27 March to 3 April.

- Of the $60.7 million of special warrants, $28.4 million was not deposited until 29 March, $9.1 million was not deposited until 31 March, $22.8 million was deposited between 5 April and 12 April and $400,000 was not deposited until 21 July.

## 3.4 Special Warrants

Because of the number of days which passed between 10 March 2000, when the special warrants were approved, and the dates that the cheques were issued and deposited, it is clear that no emergency existed at the time of approval of the special warrants. The House of Assembly was sitting on 13 March 2000, the next business day immediately after the issuance of the special warrants and remained sitting until 11 May 2000. Therefore, Government could have asked the House of Assembly to approve a Supplementary Supply Act for the $60.7 million to cover these expenditures. In addition, because the majority of these expenditures were not made until April 2000, these amounts should have been included in the Estimates of the Province for the 2000-01 year.

### 29 March 2000 ($10.1 million)

- On 29 March 2000, a special warrant for $2.2 million was issued to the Department of Works, Services and Transportation. Our review of this warrant indicated that the $2.2 million related to the development of three new hospital facilities. However, the Department's original budget for the 1999-2000 year for new facilities was $33.2 million and the expenditure for the year was only $30.7 million. Therefore, the Department did not require the $2.2 million which was approved in the special warrant and no emergency existed at the time of approval of the special warrant.

- On 29 March 2000, a special warrant for $7.94 million was approved for the Department of Education. The vouchers and cheques supporting the expenditures made by the Department of Education were dated 31 March and the cheques were also deposited on the same date. The House of Assembly was in session on the date on which the special warrant was issued and Government could have asked the House of Assembly to approve a Supplementary Supply Act for these expenditures totalling $7.94 million to cover these expenditures.

### Impact on Government's Financial Statements

The issuance of special warrants along with other mechanisms provide Government with the flexibility to "adjust" the cash surplus or deficit of the Consolidated Revenue Fund and produce a result closer to that originally budgeted on the cash basis. Part 3.3 of this Report outlines the impact of these special warrants and other mechanisms on the cash surplus or deficit.

## 3.4 Special Warrants

### Treasury Board Secretariat's Response

- *The Legislature has granted authority to Government to issue Special Warrants when certain circumstances are met. This authority is clearly outlined in the Financial Administration Act (FAA). In each case where a Special Warrant is issued, the relevant Minister must provide a statement indicating that the need for the Special Warrant is urgent. In addition, the Legislation requires, through the FAA, that Government table Special Warrants in the Legislature within certain time frames. As you have indicated, all Special Warrants issued for 1999-2000 were tabled in accordance with the requirements of the Financial Administration Act.*

- *The need for Special Warrants will inevitably arise from time to time, and Special Warrants have, in fact, been issued in most years. Our financial condition is subject to a high degree of dependence on federal transfer payments which are by their nature highly volatile. Over the years, given higher revenues than expected, towards year end Government has utilized the Special Warrants mechanism to make some expenditures that they felt served the public good. This was in an effort to avail of year-end flexibility and provide for a stable financial performance. The credit rating agency, Moody's Investors Services, has commented positively on Government's commitment to fiscal balance and in this context, in an April 2000 report made reference to "...the province's use of contingency reserves in budgeting, reasonable revenue estimates, revenue deferrals and acceleration of year-end spending as additional tools to be relied upon to enhance near-term financial flexibility".*

- *It should be noted that utilizing Special Warrants for continuing services when the Legislature is in session has been a long standing practice and is permitted under the FAA. Any funding obtained via Special Warrants is also subsequently included in a Supply Bill.*

- *The fact that there were delays between the dates the Special Warrants were authorized and the dates the cheques were issued is not, in my view, particularly relevant to the issue of urgency. Program decisions cannot be made or publicly announced, and management cannot embark upon a particular course of action until a source of funding has been identified. When a source has been identified, such as a Special Warrant, then actual disbursement of funds would occur through the administrative/accounting process at a later date.*

## 3.4 Special Warrants

- *The suggestion that funding could have been included in the 2000-2001 Budget overlooks that Government had flexibility to incur these expenditures in the 1999-2000 year but that this flexibility may not have existed for 2000-2001.*

- *The FAA does not define or qualify what should constitute urgency. In all cases appropriate statements as to urgency had been prepared by Ministers, and were tabled in the House of Assembly, as required by the Act.*

- *I am not aware of any guidelines that would be helpful in determining what would constitute an urgent requirement. Presumably, in this case, the appropriate Ministers felt there was an urgency, and the House of Assembly obviously concurred. Accordingly, I believe that the Special Warrants meet the requirements of the Financial Administration Act.*

- *Regarding your comments relating to the issuance of Special Warrants as a mechanism providing Government with flexibility to adjust the cash surplus or deficit, it should be noted that the payments relating to the appropriations authorized by the Special Warrants were properly accounted for in the Consolidated Revenue Fund financial statements.*

- *Details on the particulars of Special Warrants and the disposition of funds should be directed to the appropriate Minister of the applicable department.*

- *I also refer you to the Treasury Board and Department of Finance reply to your report item on "Government's Results of Financial Operations" for additional information.*

## 3.5 Accounts and Loans Receivable in Government

### Introduction

Our review of Government departments indicated that a significant portion of their accounts receivable are in arrears. Figure 1 provides information on amounts owed to Government for each of the eight years to 31 March 2000 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

**Figure 1**

**Consolidated Revenue Fund**
**Accounts, Taxes, Loans, Advances and Mortgages Receivable**
**Years Ended 31 March**
**($000's)**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Total Receivables | 531,265 | 544,156 | 551,764 | 537,153 | 474,797 | 461,612 | 468,872 | 449,539 | |
| Less: Amounts Considered to be Uncollectible | 242,480 | 255,565 | 279,065 | 279,924 | 215,210 | 211,832 | 242,344 | 247,799 | |
| Net Receivables | 288,785 | 288,591 | 272,699 | 257,229 | 259,587 | 249,780 | 226,528 | 201,740 | |
| Accounts Written Off | 80,022 | 14,242 | 5,398 | 20,790 | 69,877 | 7,972 | 1,855 | 12,977 | 213,133 |

Source: Consolidated Revenue Fund Financial Statements

### Scope and Objective

We reviewed the amounts owed to Government as at 31 March 2000 to determine whether they are collected on a timely basis.

### Conclusion

In addition to not collecting amounts owed to it on a timely basis, Government has written off significant amounts owed to it.

### Findings and Recommendations

Figure 2 provides details on the $449.5 million owed to Government as at 31 March 2000:

## 3.5 Accounts and Loans Receivable in Government

**Figure 2**

**Consolidated Revenue Fund**
**Amounts owed to Government**
**31 March 2000**
**($000's)**

| Type of Receivable | Balance | Amount outstanding in excess of one year | Amount considered doubtful of collection |
|---|---|---|---|
| Crown Agencies | **(Note 1)**<br>213,930 | 26,050 | 132,172 |
| Taxes receivable | 118,138 | 51,592 | 46,514 |
| Commercial loans | 32,293 | 26,311 | 29,728 |
| Miscellaneous receivables | 37,858 | 4,842 | 12,495 |
| Court fines | 18,309 | 14,723 | 11,224 |
| Social Assistance overpayments | 26,996 | 23,073 | 15,332 |
| Other | 2,015 | 344 | 334 |
| **Total** | **449,539** | **146,935** | **247,799** |

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Note 1: Of the $213.9 million relating to Crown Agencies, $126.6 million relates to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and the Farm Development Loan Board. The amount due to these entities for loans made is $43.6 million in arrears. Also, of the $213.9 million, $31.0 million is due from the Newfoundland Industrial Development Corporation on a long-term basis with no specific repayment date.

Our review disclosed that Government's average cost of borrowing in the capital market for the year ended 31 March 2000 was 6.6%. If Government had collected the $146.9 million outstanding for more than one year and the $43.6 million in arrears with the lending entities and used these funds to retire debt or to reduce current borrowing, annualized savings on debt servicing could have exceeded $12.6 million.

During the last eight years Government has written off $213.1 million in accounts receivable owed to it. Details of these amounts written off are presented in Figure 3.

## 3.5 Accounts and Loans Receivable in Government

**Figure 3**

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**Consolidated Revenue Fund**
**Accounts and Loans Receivable Written Off**
**1993 to 2000**
**($000's)**

| Entity | Amount |
|---|---:|
| Baie Verte Mines Inc. | 47,551 |
| Newfoundland Industrial Development Corporation | 29,229 |
| Newfoundland Enviroponics Limited | 15,252 |
| Newco Corporations | 15,361 |
| Integrated Poultry Group of Companies | 11,527 |
| Enterprise Newfoundland and Labrador | 10,894 |
| Newfoundland Dockyard | 8,065 |
| Ocean Harvesters Limited | 6,649 |
| Cape Pine Fisheries Ltd. | 6,466 |
| Miscellaneous amounts which are less than $300,000 individually | 4,509 |
| Fisheries Loan Board of Newfoundland | 4,421 |
| Court fines | 3,938 |
| St. Lawrence Fluorspar Limited | 3,919 |
| Fisheries Loans | 3,849 |
| Social Assistance Overpayments | 3,802 |
| Notre Dame Bay Fisheries | 3,762 |
| Universal Group of Companies | 3,504 |
| Department of Health | 3,339 |
| Harbour Grace Fishing Company Limited | 2,368 |
| Oceana Seafood Processors Limited | 2,175 |
| St. Clares Mercy Hospital | 1,993 |
| Other government departments - accounts written off | 1,645 |
| Superior Seafoods Limited | 1,567 |

## 3.5 Accounts and Loans Receivable in Government

**Figure 3 (cont'd)**

| Entity | Amount |
|---|---:|
| St. John's Metropolitan Area Board | 1,475 |
| Governor's Park Limited | 1,428 |
| Great Northern Seafoods Limited | 1,414 |
| Petty Harbour Fishermen's Producer's Co-operative Society Limited | 1,316 |
| Blue Ocean Products Limited | 1,314 |
| Gander Masonic Memorial Complex | 1,240 |
| Salvation Army Grace General Hospital | 1,038 |
| Reid's Products Limited | 931 |
| Petty Harbour Fisheries Ltd. | 926 |
| Belle Isle Seafoods Ltd. | 799 |
| S. T. Jones and Son Limited | 795 |
| White's Fisheries Limited | 770 |
| Department of Natural Resources | 667 |
| Island Tile and Slate | 513 |
| Nordco Limited | 478 |
| Department of Fisheries | 469 |
| Reg Petten | 465 |
| Sop's Arm Fisheries (1988) Limited | 341 |
| Ocean Kist Products (1970) Ltd. | 338 |
| Department of Works, Services and Transportation | 316 |
| Trouty Seafoods Limited | 315 |
| Total | 213,133 |

## 3.5 Accounts and Loans Receivable in Government

In addition to the amounts written off totalling $213.1 million, during the years 1993 to 2000 the Province wrote off $14.1 million in tax forgiveness and $20.3 million in tax remissions.

As at 31 March 2000, Government anticipated that $247.8 million or 55.1% of the $449.5 million amount owed to it will likely not be collected.

In May 1999 Government introduced the accounts receivable function of its accounting system. Government anticipates that this system will improve its recording, controlling and monitoring of accounts receivable. Our work during the current year disclosed that as at 31 March 2000 the accounts receivable system had not been fully implemented in the following departments:

- Executive Council,
- Health and Community Services, and
- Works, Services and Transportation.

**Recommendations**

*Accounts receivable should be collected on a timely basis.*

*Government should complete full implementation of its new accounts receivable system in all departments.*

**Treasury Board Secretariat's Response**

*I agree with your recommendations. The departments are responsible for the timely collection of accounts receivable and the management of their accounts. The Treasury Board Secretariat continues to be active in encouraging improvements in collections and related activities of the departments through information sessions, analysis and feedback with respect to write-off requests, routine interaction with departments and provision of advice when requested.*

*The committee reviewing collection policies continues to focus on government-wide matters related to collections. A number of possible revisions to the current collection policies have been drafted by a working committee for further consideration.*

*There are procedures in place to ensure that accounts are written-off only if this is the appropriate course of action. These procedures include a review to determine that collection options have been exhausted.*

*Implementation of the government-wide Oracle accounts receivable module in the remaining three departments is already in progress.*

## 3.6 Steelcor Industries Incorporated

### Introduction

Steelcor Industries Incorporated, a precision machine shop in the Town of Buchans, is 51% owned by the Province. The Province initially became involved with Steelcor in December 1989 when Enterprise Newfoundland and Labrador Corporation's (ENL) predecessor, the Newfoundland and Labrador Development Corporation, approved funding of $100,000 in the form of a $1 equity investment in the common shares of Steelcor and a $99,999 convertible shareholder's loan, and as a result assumed a 25% ownership in the company. In July 1993, the Province, through ENL, exercised its option rights under its convertible shareholder's loan and restructured some of its other debt outstanding to the company and assumed a 51% ownership interest in the company.

Since Steelcor commenced business in 1989, the Province has advanced $3.119 million to the Corporation. Interest charges of $1.134 million and payments of certain expenses of $135,000 on behalf of the company have been added to these advances. As of September 2000, the Province has only recovered $313,000 comprised of $254,000 of principal and $59,000 in interest, with the last receipt dated June 1995. Total write-offs amounted to $1.305 million and were comprised of $341,000 of principal and $964,000 in interest. Figure 1 shows that Steelcor owed ENL $2.77 million as at 30 September 2000, after the write-offs of $1.305 million. The $2.77 million owed to ENL as at 30 September 2000 is comprised of $2.664 million of principal and $106,000 in interest. All of the outstanding balance of $2.77 million is considered by ENL to be uncollectible.

**Figure 1**

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**Enterprise Newfoundland and Labrador**
**Investment in Steelcor Industries Incorporated**
**1989-2000**
**($ 000's)**

| Transactions | Amount |
|---|---|
| Loans and equity advanced | $ 3,119 |
| Interest charged | 1,134 |
| Security credits advanced | 135 |
| | 4,388 |
| Repayments | (313) |
| Total amount owed to ENL | 4,075 |
| Write-offs | (1,305) |
| Balance outstanding 30 September 2000 | $ 2,770 |

Source: Department of Development and Rural Renewal's Loans Administrator System

## 3.6 Steelcor Industries Incorporated

In addition to loans and equity investments, ENL also provided Steelcor with $21,000 in company development grants. These grants were non-repayable and were provided for travel costs and purchase of a computer.

**Objectives**

The objectives of our review were to determine the current status of the Province's investment in Steelcor, whether loans were adequately monitored and whether adequate security is maintained.

**Findings**

**Loans and Payouts**

Since Government's involvement with Steelcor in 1989, 16 loans totalling $3.119 million have been made to Steelcor Industries for such purposes as working capital, contract financing, capital equipment, professional fees, insurance, utilities and supplies. One of these 16 loans relates to a $550,000 loan guarantee which was paid out by ENL in March 2000 and is included in the $3.119 million. Figure 2 summarizes the financial assistance provided to Steelcor from 1989 to 2000.

**Figure 2**

**Government Investment in Steelcor**
**1989 - 2000**

| | | | |
|---|---|---|---|
| December 1989 | $100,000 | November 1995 | 250,000 |
| November 1990 | 500,000 | February 1997 | 300,000 |
| November 1990 | 100,000 | January 1999 | 75,000 |
| July 1992 | 125,000 | April 1999 | 50,000 |
| August 1992 | 20,000 | June 1999 | 93,000 |
| February 1993 | 216,000 | November 1999 | 55,000 |
| February 1993 | 75,000 | March 2000 (payout under guarantee - Note 1) | 550,000 |
| July 1993 | 310,000 | | |
| February 1994 | 300,000 | **Total** | **$3,119,000** |

Source: ENL's Financial Records
Note 1: $300,000 approved in 1991 and $250,000 approved in 1997

## 3.6 Steelcor Industries Incorporated

### Security

ENL's security position includes a first and floating charge over all assets of Steelcor and a unanimous shareholders' agreement for its 51% ownership in the company. The unanimous shareholders' agreement provided a right of first refusal to a minority shareholder (formerly the major shareholder) over ENL's future disposition of its 51% interest in the company. As per its 31 December 1997 financial statements, the book value of Steelcor's capital assets totalled $687,000. Given that ENL is owed approximately $2.77 million, security held will most likely not be adequate.

The shortage in security can be attributed, in part, to the fact that the majority of loans were provided for working capital purposes or contract financing. Although $1.5 million of the $3.119 million loaned to Steelcor was secured by an assignment of funds from contracts in hand or future contracts, correspondence on file dated January 1999 indicated that ENL was aware of four loans which were secured through contract assignments but which had been breached.

Our review confirmed instances where contract revenues, which were assigned to ENL, were kept and expended by Steelcor to cover working capital needs with the knowledge of ENL. For example, in December 1993, $40,072 was received by Steelcor which was used to pay for payroll and other administrative costs and in December 1999 another $17,537 was received and spent by Steelcor. In addition to not recovering its loans, by knowingly not intercepting these monies as per signed agreements, ENL effectively provided Steelcor with additional funding without having to follow its policies regarding the approval and issuance of loans. The total dollar magnitude of these breaches could not be determined from the files. However, given that over $5 million in contracts were obtained by Steelcor since 1989 and only $227,000 was received by ENL, the $1.5 million in secured loans should have seen a higher recovery.

In October 2000, Steelcor's insurance agency informed ENL of its decision not to renew insurance coverage on the assets of Steelcor. Without insurance coverage, any loss of the secured assets due to fire or other loss will not be recoverable.

### Monitoring

In 1993, when ENL obtained majority ownership of Steelcor, it started taking an active role in the company's business. It appointed two ENL employees to the Board in 1993 to represent its interests in the company, monitored the financial activities of Steelcor through reviews of weekly and monthly cash flows, attended contract negotiations, and approved various operational and financial reviews of Steelcor. Of the $3.119 million in financing provided to Steelcor, $1.4 million was provided after 1993 when Government took controlling interest in the company.

Since incorporation of Steelcor in 1989, neither ENL nor its predecessor has received any audited financial statements although it has invested over $3.1 million in the company. Annual unaudited financial statements were not received on a timely basis. For example, the 31 December 1996 and 31 December 1997 unaudited financial statements were not received until November 1998. ENL has not received any financial statements since receiving the 1997 unaudited financial statements.

### Current Status

ENL files indicate that no private investment has been put into the company since ENL became the prime source of financing for Steelcor in 1993. Since 1997 ENL has been negotiating the divestiture of its ownership interest in Steelcor with various parties. Various divestiture plans have been put forth with little success. Divestiture attempts to date call for ENL to put Steelcor in a debt-free position. As at May 2000, ENL has determined that various secured and unsecured creditors were owed approximately $1.6 million. In addition, according to the unanimous shareholders agreement signed in 1993, any divestiture of ENL's interest in Steelcor must first have the prior written consent of a minor shareholder, even though ENL has a 51% controlling interest. Also, any write-off or restructuring of debt which reduces the debt to less than $1.3 million, provides the minority shareholder with an option to take common shares and majority control of the company.

In October 2000, Government gave approval to another Crown corporation, NIDC, to provide up to $175,000 to the Buchans Development Corporation, a minor shareholder, to facilitate ownership restructuring of Steelcor.

### Department's Response

*The initial investments made in Steelcor, including the decision to take a 51% ownership position in it, were made by Enterprise Newfoundland and Labrador Corporation before the Department was formed in 1996. The intent was to assist in the start-up of a new manufacturing enterprise in an area of the Province experiencing high unemployment and with limited economic opportunity. The investment decisions were made with a full understanding and assessment of the risks involved, including the level of security that could reasonably be realized under a worst-case scenario.*

## 3.6 Steelcor Industries Incorporated

*In the late 1990's, after it became apparent that additional investments would be needed to make the company viable over the long term, government embarked on a process, with the other shareholders, to attract new private investment to the company and divest its ownership interest in the company. This did not succeed. In an effort to give the operation a fresh start, without the significant debt obligations that had been accumulated over time, the Buchans Development Corporation, in November 2000, petitioned Steelcor into bankruptcy. Through a Crown divestiture program managed by the Newfoundland Industrial Development Corporation, Government agreed to provide the Buchans Development Corporation with a one-time financial assistance to manage this process.*

*The Department of Development and Rural Renewal, as of April 1, 2000, no longer provides loans or loan guarantees to private companies. The Department's policy approach to supporting the growth of small to medium sized enterprises is through a matching equity financing program that has funding cap of $50,000 for individual companies and through a venture capital tax credit investment program.*

## 3.7 Picadilly Plastic Incorporated

**Introduction**

Picadilly Plastic Incorporated operates a plastic thermoforming business on the Port au Port Peninsula on the West Coast of the Province. The Province initially became involved in Picadilly Plastic in June 1995. Since then, the Province has advanced $1.279 million to the company of which $1.029 million was provided by ENL and $250,000 was provided by the Newfoundland Industrial Development Corporation (NIDC). Interest charges of $248,000 and payments of certain expenses of $52,000 have been added to these advances. Figure 1 provides information on the financial assistance provided to Piccadilly Plastic since 1995.

**Figure 1**

**Province of Newfoundland and Labrador**
**Investment in Picadilly Plastic Incorporated**
**1995-2000**
**($ 000's)**

| Transactions | ENL | NIDC | SEOP (Note 1) | EDGE (Note 2) | Total |
|---|---|---|---|---|---|
| Loans and equity advanced | $ 1,029 | $ 250 | | | $ 1,279 |
| Interest charged | 248 | | | | 248 |
| Security credits advanced | 52 | | | | 52 |
| | 1,329 | 250 | | | 1,579 |
| Receipts | (25) | 0 | | | (25) |
| Total owing as at 30 September 2000 | 1,304 | 250 | | | 1,554 |
| Write-offs | (1,304) | 0 | | | (1,304) |
| Loans Outstanding | $ 0 | $ 250 | | | $ 250 |
| Non-repayable Grants | $ 5 | $ 105 | $ 90 | $ 27 | $ 227 |

Source: Enterprise Newfoundland and Labrador and Newfoundland Industrial Development Corporation Financial Information.
Note 1:Strategic Employment Opportunities Program, Department of Human Resources and Employment
Note 2:Economic Diversification and Growth Enterprises

## 3.7 Picadilly Plastic Incorporated

In addition to the loans and equity investment of $1.279 million, ENL also provided $5,000 in company development grants to Picadilly Plastic and, in February 1999, NIDC provided a $105,000 grant for utilities, insurance, payroll remittances and materials. In addition, a grant of $142,000 was approved, of which $90,000 was paid through the Strategic Employment Opportunities Program administered by the Department of Human Resources and Employment. Picadilly Plastic also received a $27,000 grant under the EDGE Program which was administered by the Department of Industry, Trade and Technology.

### Objectives

The objectives of our review were to determine the current status of the Province's investment in Picadilly Plastic, whether the loans/equity investments were adequately monitored and whether adequate security is maintained.

### Findings

**Loans and Payouts**

Since its involvement in Picadilly Plastic in June 1995, ENL and NIDC have advanced five loans/equity investments, totalling $1.279 million, for such purposes as working capital, capital equipment, professional fees and utilities. Of this $1.279 million, ENL has provided $1.029 million while NIDC has provided $250,000. One of the ENL loans related to a payout on a $425,000 loan guarantee which was approved at $375,000 in June 1995 and later increased to $425,000 in April 1997 without Board approval.

In January 1999, ENL approved a restructuring plan for Picadilly Plastic in anticipation of its securing a major United States contract and a go forward private sector investment. The plan included the transfer of ENL's 33 1/3% share in Picadilly Plastic to new investors for $1 and the 100% write off of all accounts, including its $425,000 loan guarantee. As a result, ENL released all of its security, which included a first charge on company assets and a $100,000 personal guarantee from one of its owners. The restructuring plan also included an additional $355,000 in funding from the NIDC, another Crown Corporation, and the write-off and restructuring of other private investment into the company. In return, the new private investors committed to investing $1.2 million in the company in working capital and equipment upgrades/expansions; however, this $1.2 million investment was not included as part of any additional agreements between Government and Picadilly Plastic.

## 3.7 Picadilly Plastic Incorporated

In January 1999, ENL wrote off $1.304 million owed by Picadilly Plastic and released its security on company assets. In February 1999, the Crown corporation NIDC invested an additional $355,000 in the company. Documentation on file indicates that only $501,000 of the required $1.2 million in private investment was available to the company. However, there was insufficient information on file to determine whether the $501,000 was actually invested in the company. Also the contract with the United States company did not fully materialize and further investment was not made by the new owners.

### Security

ENL's security position was released once all of Picadilly Plastic's loan and equity balances of $1.304 million were written off in January 1999. In February 1999, NIDC provided an additional $355,000 to the company which was comprised of a $250,000 loan and a grant of $105,000. The $250,000 loan was secured by a first fixed and floating charge on Picadilly Plastic's assets, which was the same security provided for ENL's loan of $1.304 million which was written off in January 1999.

In February 2000, NIDC also released its first charge security position and gave priority to a Federal lending institution. As a result, Government no longer holds a first charge security position and, therefore, its exposure to additional losses has been increased.

### Monitoring

Since its initial involvement with Picadilly Plastic in 1995, ENL has never received any audited financial statements from the company as required by the Board of Directors of ENL at its meeting on 7 June 1995. ENL had been monitoring the operations of Picadilly Plastic with periodic site visits, reviews of monthly financial reports, departmental briefings and various funded operational and financial reviews. Unaudited financial statements for 1995, 1996 and 1997 and an internally prepared 31 December 1998 balance sheet and 1 September 1998 income statement were received.

Since NIDC's involvement with Picadilly Plastic in February 1999, monitoring activities have been limited to requests for financial information. However, NIDC staff stated requests for outstanding financial statements had been made on three separate occasions during 2000, without success.

## 3.7 Picadilly Plastic Incorporated

Without annual audited financial statements, Government cannot determine how loans and equity investments of $1.279 million and grants of $227,000 provided to Picadilly Plastic have been spent.

### Current Status

While the $1.304 million owed to ENL by Picadilly Plastic has been written off, the $250,000 owed to NIDC is still outstanding. The company has been shut down since April 2000 and the $250,000 owed to NIDC is doubtful of collection.

### Department's Response

*Provincial investments made in Picadilly Plastic were made primarily by the Enterprise Newfoundland and Labrador Corporation before the Department was formed in 1996. The intent was to assist in the start-up of a new manufacturing enterprise in an area of the Province experiencing high unemployment with limited economic opportunity. The investment decisions were made with a full understanding and assessment of the risks involved, including the level of security that could reasonably be realized under a worst-case scenario.*

*In early 1999, after it became apparent that additional investments would be needed to make the company viable over the long term, government agreed, with the other shareholders of the company, to restructure the company such that new private owners could be attracted and Government could remove itself from the operation. As part of this plan, Government wrote off its prior investments and, through a Crown divestiture program managed by the Newfoundland Industrial Development Corporation, provided a one-time divestiture incentive to implement a go-forward business plan. This business plan included the raising of significant new private capital over a phased period in order to take advantage of emerging new business opportunities in the United States.*

*Efforts are continuing by the private owners to secure the necessary capital to fully implement the business plan that formed the basis of the 1999 restructuring. The business opportunities in the United States are still available to Picadilly Plastic.*

*The Department of Development and Rural Renewal, as of April 1, 2000, no longer provides loans or loan guarantees to private companies. The Department's policy approach to supporting the growth of small to medium sized enterprises is through a matching equity financing program that has funding cap of $50,000 for individual companies and through a venture capital tax credit investment program.*

## 3.8 Loan Guarantees - Development and Rural Renewal

### Introduction

Government uses loan guarantees to achieve its policy objectives. When Government provides a loan guarantee on behalf of a company, it is guaranteeing or promising that it will repay a loan on behalf of the company if that company cannot repay the loan. There are no payments made by Government when the guarantee is issued. Payment will only be made if the company defaults on its loan payments and the financial institution requires Government to honour its guarantee.

The Department of Development and Rural Renewal, through its management of the Enterprise Newfoundland and Labrador Corporation, provides assistance in the start up and growth of small to medium sized enterprises which have activities consistent with strategic sectoral opportunities identified as zonal or Provincial priorities and whose funding needs cannot be met through other sources.

While the Department primarily provides assistance to qualified enterprises in the form of grants, loans and equity investments, and conditional forgivable loans, it also provides loan guarantees to qualified enterprises. Between 1997 and 2000 there were $3.055 million in loan guarantees being managed by the Department of Development and Rural Renewal. For the year ended 31 March 2000 outstanding loan guarantees totalled $700,000 compared to $1.4 million at 31 March 1999. Of the $700,000 in outstanding loan guarantees, the Department estimates that it will pay out approximately $300,000. Effective for the 2000/2001 fiscal year, we were informed that the Department will no longer be providing loans and loan guarantees but will instead be offering matching equity financing up to $50,000 and a venture capital tax credit program.

### Scope and Objectives

We commenced our review of loan guarantees in February 2000. Our review included discussions with departmental officials, and a review of relevant policies and procedures, agreements, reports and other departmental information. As well, specific loan guarantees were reviewed.

The objectives of our audit were to examine loan guarantees administered by the Department of Development and Rural Renewal to assess:

- the nature and objectives of the loan guarantee program;
- whether guidelines and related policies and procedures had been developed and were consistent with the nature and objectives of the program;

- whether program guidelines and related policies and procedures that had been developed were being complied with; and
- whether monitoring and reporting mechanisms had been established to evaluate and report on success towards achieving program objectives.

**Conclusions**

Between 1997 and 2000 there were $3.055 million in loan guarantees being managed by the Department of Development and Rural Renewal. These loan guarantees were provided to 11 companies. We reviewed loan guarantees totalling $2.555 million for 10 of the 11 companies. The remaining guarantee for $500,000 to BPS Imaging Partnership was audited and reported on in my 1999 Annual Report.

Of the $2.555 million in loan guarantees reviewed, Government paid out $1.675 million and $180,000 expired, leaving outstanding loan guarantees of $700,000 as of 31 March 2000. In one case, the Department recovered $150,000 from the sales proceeds of certain secured assets.

Our review of ten loan guarantees in place at the Department of Development and Rural Renewal indicated the following:

- Four instances were noted where security that was taken was insufficient to cover the loan guarantee, or security the Department originally had in place was subordinated in favour of other interests.
- Loan guarantee agreements may include a restriction on the amount of remuneration that the companies can pay to their shareholders and directors. However, information on the remuneration paid was not always apparent from the financial information submitted to the Department.

  In one case where information was available, the company contravened the provisions contained in the loan guarantee agreement by paying dividends of $95,800, and shareholders' advances and management wages which were $60,000 in excess of the amount authorized in the guarantee agreement. In October 1998, this issue was brought to the attention of the company. However, there is no further information on file indicating that the Department followed up on this issue, whether excess amounts were returned to the company, and that no further excess payments were made to management and shareholders.

## 3.8 Loan Guarantees - Development and Rural Renewal

- Under the terms and conditions of their guarantee, some companies were required to submit internally prepared financial statements on a monthly basis, but this did not occur. All companies were required to submit annual financial statements; however, the files did not always contain the required annual financial statements.

- Companies are required to maintain insurance on assets that have been pledged as security for the loan guarantee. In one instance, we were unable to locate any documentation to show that the company had maintained insurance and had provided proof of such insurance to the Department.

- Guarantees were provided to three companies even though those companies were in arrears on loans with the Department. In two of these cases, the Department was required to honour the guarantees. In the other case, the loan guarantee is still outstanding.

- In January 1999, the Department wrote off loans totalling approximately $1.2 million for one company which included the pay out of a loan guarantee of $425,000. Although the Department had a charge on the company's assets, it did not realize on its security.

  In December 1998, Cabinet authorized a Crown corporation, the Newfoundland Industrial Development Corporation (NIDC), to provide this same company with a grant of $105,000 and a loan of $250,000. The $250,000 term loan provided by NIDC is interest and payment free for the first three years. After this three year period, the loan is to be repaid over seven years and will bear an interest rate of 8.75%. NIDC has taken a security position on the same assets which the company used as security for the loan provided by the Department and which was written off.

- As a result of a financial restructuring, the Department has a 51% voting control of one of the companies. By holding 51% of the outstanding voting shares the company meets the definition of a Crown controlled corporation for purposes of the *Auditor General Act*.

## 3.8 Loan Guarantees - Development and Rural Renewal

### Findings and Recommendations

Guarantees are provided to private companies by the Department of Development and Rural Renewal, through its management of the Enterprise Newfoundland and Labrador Corporation, to assist in the start up and growth of small to medium sized enterprises which have activities consistent with strategic sectoral opportunities identified as zonal or Provincial priorities and whose funding needs cannot be met through other sources. The assistance provided by the Department may take the form of loan advances, equity advances, loan guarantees, company development grants or conditional forgivable loans.

While the Department primarily provides assistance in the form of grants, loans and equity investments, it also provides loan guarantees to qualified enterprises. Figure 1 provides a summary of the outstanding loan guarantees in the Department of Development and Rural Renewal loan guarantee portfolio for each of the last four years:

**Figure 1**

**Department of Development and Rural Renewal**
**Loan Guarantee Portfolio**
**Outstanding Loan Guarantees**
**Years Ended 31 March**

| Year | Number of Loan Guarantees Outstanding | Outstanding Loan Guarantees $ |
|---|---|---|
| 1997 | 5 | 1,556,080 |
| 1998 | 9 | 2,845,000 |
| 1999 | 6 | 1,430,000 |
| 2000 | 4 | 700,000 |

Source: Audited Financial Statements of the Enterprise Newfoundland and Labrador Corporation

### 1. Loan Guarantee Administration, Monitoring and Reporting

Between 1997 and 2000 there were $3.055 million in loan guarantees being managed by the Department of Development and Rural Renewal. These loan guarantees were provided to 11 companies. We reviewed loan guarantees totalling $2.555 million for 10 of the 11 companies. The remaining guarantee for $500,000 to BPS Imaging Partnership was audited and reported on in my 1999 Annual Report.

## 3.8 Loan Guarantees - Development and Rural Renewal

Of the $2.555 million in loan guarantees reviewed, Government paid out $1.675 million and $180,000 expired, leaving outstanding loan guarantees of $700,000 as of 31 March 2000. In one case, the Department recovered $150,000 from the sales proceeds of certain secured assets.

Figure 2 provides a summary of the change in loan guarantee limits over the past four years for the 10 companies reviewed.

**Figure 2**

**Department of Development and Rural Renewal**
**Summary of Loan Guarantee Changes**
**Years Ended 31 March**
**$ 000s**

| | Company A | Company B | Company C | Company D | Company E | Company F | Company G | Company H | Company I | Company J |
|---|---|---|---|---|---|---|---|---|---|---|
| 1997 | - | - | - | - | 250 | - | - | 375 | 300 | 150 |
| New | - | 300 | 400 | - | - | - | 30 | - | 250 | - |
| Payout | - | - | - | - | - | - | - | - | - | - |
| Expiry | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | 300 | 400 | - | 250 | - | 30 | 375 | 550 | 150 |
| New | 150 | 200 | - | 150 | - | - | - | 50 | - | - |
| Payout | - | (500) | - | - | (250) | - | - | (425) | - | - |
| Expiry | - | - | - | - | - | - | - | - | - | - |
| 1999 | 150 | - | 400 | 150 | - | - | 30 | - | 550 | 150 |
| New | - | - | - | - | - | 150 | - | - | - | - |
| Payout | - | - | - | - | - | - | - | - | (550) | (150) |
| Expiry | - | - | (150) | - | - | - | (30) | - | - | - |
| 2000 | 150 | - | 250 | 150 | - | 150 | - | - | - | - |

## 3.8 Loan Guarantees - Development and Rural Renewal

Our review of loan guarantees in place at the Department of Development and Rural Renewal indicated the following:

**Company A (loan guarantee provided - $150,000)**

The company, at the time of our review, was not complying with one of the terms and conditions of the loan guarantee. Under the terms and conditions of the guarantee, the company was required to submit internally prepared financial statements on a monthly basis, but this did not occur.

In addition, the security the Department originally had in place for the guarantee was subordinated in favour of another financing agency.

As of 31 March 2000, this guarantee for $150,000 was still in effect.

**Company B (loan guarantee provided - $500,000)**

A signed copy of the letter of offer to the company from the Department and the guarantee agreement provided by the Department to the bank were not on file. As a result, the Department had to request the documentation from the law firm representing the company.

The guarantee also required the company to provide annual audited financial statements to the Department. The required audited financial statements were not on file. As well, the Department required the submission of monthly internally prepared financial statements; however, such statements were not submitted for the five months prior to Government having to honour the loan guarantee and pay out $500,000 in December 1998. We were informed by the Department that their lawyers had made an error in the registration of the security which resulted in the Department not being able to recover the full $500,000 paid out. The Department realized $150,000 from the sales proceeds of certain assets. It was indicated that the law firm acknowledged their error and had contacted its insurance agent to arrange for a full settlement of the remaining $350,000. As of 31 March 2000, the Department was still owed the $350,000.

**Company C (loan guarantee provided - $400,000)**

A $400,000 guarantee was provided on behalf of this company in June 1998 even though the company had arrears of $20,716 on an outstanding loan totalling $83,500 with the Department.

As of 31 March 2000, $150,000 of the loan guarantee had expired leaving an outstanding loan guarantee of $250,000.

**Company E (loan guarantee provided - $250,000)**

In November 1996 the company was provided with a loan guarantee of $250,000. The loan guarantee was provided even though the company had arrears of $7,400 on a loan balance of $112,500 with the Department. Government had to honour this $250,000 loan guarantee and as at 31 March 2000, this company and an associated company owed Government approximately $2.5 million most of which originated in the early nineteen nineties and which Government has determined to be uncollectible.

The company was required to maintain insurance on assets used as security for the guarantee. During our review of the guarantee files we were unable to locate any documentation to show that the company had maintained insurance and had provided proof of such insurance to the Department within the required time. Although there was a personal guarantee and a floating charge debenture over all assets subject to a first charge by the bank, internal documents at the Department indicated that the Department would be *"virtually unsecured"* in the case of a default.

**Company F (loan guarantee provided - $150,000)**

Our review of the Department's file relating to this guarantee indicated that the available capital assets and other forms of security put in place were considered to be insufficient. Documentation at the Department indicated that the *"Affiliated Company Guarantee and Personal Guarantee from shareholders may be worth very little in the final analysis."*

As of 31 March 2000, the $150,000 loan guarantee was still outstanding.

**Company H (loan guarantee provided - $425,000)**

The $425,000 loan guarantee, of which $375,000 was issued in 1995 and $50,000 was issued in 1997, was provided in combination with $270,000 equity financing and a $279,000 term loan. The $50,000 loan guarantee issued in 1997 was not approved by either the Departmental Committee established to monitor loan guarantees or the Board as was required by the Corporation's policy for loan transactions.

The Department was required to honour the loan guarantee and pay out $425,000 in January 1999. In the same month, the Department wrote off loans totalling approximately $1.2 million, which included the $425,000 loan guarantee. Although the Department had a charge on the company's assets, it did not realize on its security.

In February 1999, the Crown corporation, Newfoundland Industrial Development Corporation (NIDC) provided this same company with a grant of $105,000 and a term loan of $250,000. The $250,000 term loan provided by NIDC is interest and payment free for the first three years. After this three year period, the loan is to be repaid over seven years and will bear an interest rate of 8.75%. NIDC has taken a security position on the same assets which the company used as security for the loan provided by the Department and which was written off.

**Company I (loan guarantee provided - $550,000)**

The first loan guarantee for $300,000 was issued in February 1991. The additional guarantee of $250,000 was approved in November 1997, even though the company had arrears of $2.3 million on loans to the Department. The increase was proposed to "*... allow the company to meet certain pressing payables and provide adequate cash until funds begin to flow....*" Government had to honour the loan guarantee and paid out $545,000 in March 2000.

Our review indicated that, as a result of a financial restructuring, the Department assumed 51% voting control of the company in July 1993. By holding 51% of the outstanding voting shares the company now meets the definition of a Crown controlled corporation for purposes of the *Auditor General Act*. As well, the loan guarantee was increased from $300,000 to $415,000 in October 1997 without approval of the Board. The loan guarantee was increased further to $550,000 in November 1997 and the total increase was approved by the Board.

Subsequent to the approval of the $550,000 loan guarantee the Department requested that a temporary increase in the company's line of credit be approved that would extend government's existing guarantee beyond the $550,000 to provide for an additional $10,000 plus the company's weekly payroll costs. The letter also stated that *"Unfortunately, timing does not allow this department to follow its normal course of action in providing this guarantee, and therefore we are making this unusual request."* As a result, the Department approved this increase in the loan guarantee without Board approval.

## 3.8 Loan Guarantees - Development and Rural Renewal

**Company J (loan guarantee provided - $150,000)**

When the $150,000 guarantee was provided in May 1995, the company had arrears of $52,327 on existing loans from the Department. The Department was subsequently required to honour the loan guarantee and paid $150,000 in November 1999.

Our review of correspondence on file at the Department indicated that the company contravened the provisions contained in the loan guarantee agreement by paying dividends of $95,800, and shareholders' advances and management wages which were $60,000 in excess of the amount authorized in the guarantee agreement. In October 1998, this issue was brought to the attention of the company. However, there is no further information on file indicating that the Department followed up on this issue, whether excess amounts were returned to the company, and no further excess payments were made to management and shareholders.

### 2. Restrictions on Company Remuneration

Loan guarantee agreements may include a restriction on the amount of remuneration that the companies may pay to their shareholders and directors. However, information on the remuneration paid to these individuals was not always apparent from the financial information submitted to the Department. There was little evidence of effort by the Department to address these restrictions.

### 3. Other

In addition to the specific issues raised above, our review of the loan guarantee program administered by the Department also revealed that aside from periodic listings of outstanding loan guarantees, no annual or other reports are produced addressing the loan guarantee program. Such reports could include information on the actual number of jobs saved or created or the economic benefits that have resulted from the loan guarantee program, as well as the results of any monitoring activity undertaken.

It should be noted that much of this information is contained in internal documents available when the request for a guarantee is processed or when an amendment or update is prepared. As many of the loan guarantee recipients are also in receipt of loans or equity financing from the Department, any report would likely have to be prepared on the basis of the benefit from all sources of assistance received from the Department.

## 3.8 Loan Guarantees - Development and Rural Renewal

### Recommendations

*The Department should:*

*(a) ensure compliance with loan guarantee agreements relating to financial information and restrictions on compensation;*

*(b) ensure that all loan guarantee increases have prior approvals;*

*(c) ensure that appropriate documentation is maintained; and*

*(d) prepare an annual report indicating the performance of outstanding loan guarantees.*

### Department's Response

*The Department, as of April 1, 2000, no longer provides loan guarantees to private companies. With regard to the ongoing monitoring and management of loan guarantees approved prior to April 1, 2000, the Department concurs with the recommendations made by the Auditor General on this front. The Department notes, in this regard, that a new management system for monitoring all business accounts, including loan guarantees, was implemented in early 2000 at about the same time the Auditor General concluded the review of the loan guarantee program. This will address the specific recommendations made.*

*The reference in the Auditor General's report to an investment made by the Newfoundland Industrial Development Corporation (a Crown corporation) in a company that had received prior investments through the Department of Development and Rural Renewal is in reference to Picadilly Plastic Incorporated and is addressed by the Department as a stand-alone issue as reported elsewhere in the Auditor General's report.*

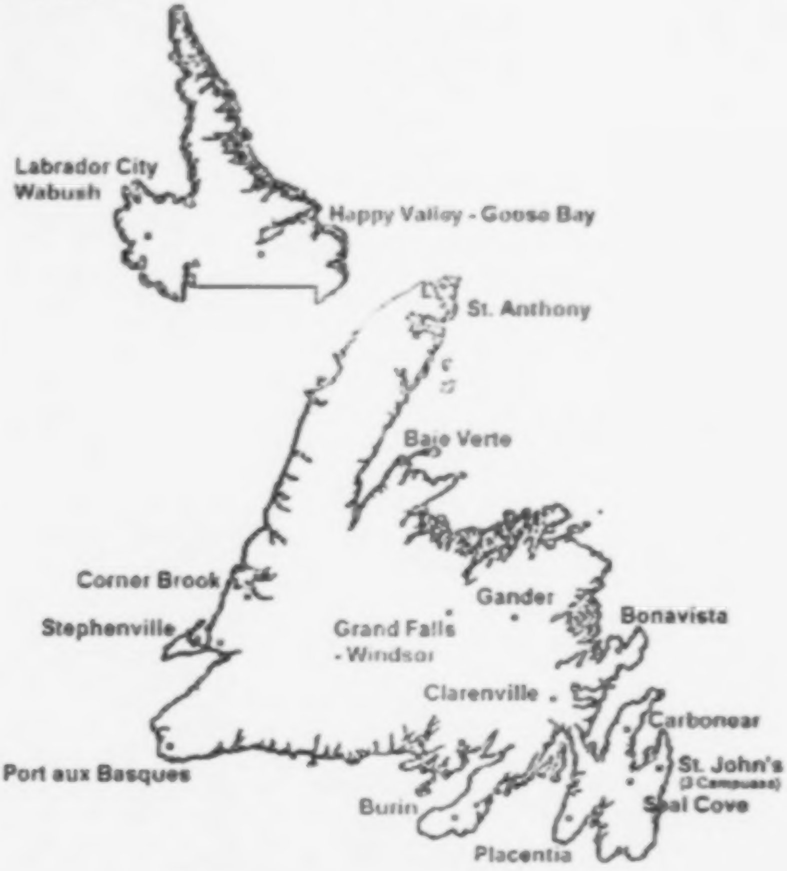
## 3.9 College of the North Atlantic

### Introduction

The College of the North Atlantic operates under the authority of the *College Act, 1996*. Effective 1 January 1997, the Board of the College of the North Atlantic assumed management of the five former regional colleges: Cabot, Central, Eastern, Labrador and Westviking. The College of the North Atlantic is the only public college in the Province. It is segregated into seven regions with 18 campuses located in 16 communities throughout the Province. The College is governed by a Board of Governors of not less than nine nor more than 18 members who are appointed by the Lieutenant Governor in Council. Figure 1 indicates the locations of the College's 18 campuses.

**Figure 1**

**College of the North Atlantic Geographical Profile**


Labrador City
Wabush
Happy Valley - Goose Bay
St. Anthony
Baie Verte
Corner Brook
Stephenville
Grand Falls - Windsor
Gander
Bonavista
Clarenville
Carbonear
St. John's (3 Campuses)
Seal Cove
Port aux Basques
Burin
Placentia

Note:Labrador and the island portion of the Province are not drawn to scale.

## 3.9 College of the North Atlantic

The College offers over 70 full time diploma and certificate programs in applied arts, business, engineering technology, health sciences, industrial education/trades, natural resources and information technology. It also offers upgrading and career preparation opportunities, courses transferable to university and customized training for the community and corporate sector. At the time of our audit (January 2000), there were 6,917 full-time, 9,094 part-time and 886 contract students enrolled in the College.

The College receives the majority of its funding from the Provincial government through grant-in-aid from the Department of Education. The Department is providing less grant-in-aid to the College since it was restructured in 1997. The Department provided a grant of $47.3 million in 1996-97, $39.6 million in 1997-98, $40.6 million in 1998-99 and $45.6 million in 1999-2000.

### Scope and Objectives

We completed our review of the College in May 2000. Our review covered the period from 1 April 1997 to February 2000. A previous review of the public college system was completed in 1995 when the system was comprised of 5 regional colleges. This is the first review of the new college system which was established in 1997 as the College of the North Atlantic. The objectives of our current review were to:

- review the financial position and operating results of the College;
- assess whether the financial management systems in the College are adequate to provide information to management and the Board for decision making and control of the college's revenues and expenditures;
- assess whether capital assets are adequately controlled and accounted for;
- determine whether controls over the purchasing of supplies and services are adequate and that such expenditures are made in accordance with Board policies and procedures, and the *Public Tender Act* and regulations; and
- determine whether controls over payroll transactions are adequate and that such expenditures are made in accordance with Board policies and procedures, and consistent with Government policies.

## 3.9 College of the North Atlantic

### Conclusions

In 1996, Government announced that it was reorganizing the college system and consolidating the five colleges existing at that time into one college now known as the College of the North Atlantic. The objectives of the reorganization were outlined by the Minister of Education at that time. In addition, the 1996 Budget Speech stated that *"the consolidation of the administration of the five existing colleges into one single College is expected to save $3.5 million in 1996-97."* The financial analysis prepared by the College indicated that administrative expenses decreased from approximately $20.9 million in 1995-96 to $16.7 million in 1997-98. However, administrative expenses have since increased from the $16.7 million in 1997-98 to $21.8 million in 1999-00.

From the establishment of the one college system in 1997 to 31 March 1999, there was a significant decline in the cash and working capital position of the College. As at 31 March 1997, which was the last year that the five colleges were required to report their financial positions separately, they had combined cash of $3.0 million and working capital of $1.3 million. As at 31 March 1999 the College of the North Atlantic, which is comprised of the five former colleges, had a cash deficiency of $2.4 million and a working capital deficiency of $1.2 million. However, in 1999-00, the Department of Education provided the College with an additional $5.0 million in grant-in-aid and, as a result, the cash position and working capital improved as at 31 March 2000.

Our review of the College of the North Atlantic indicated the following:

- The level of funding provided by the Department each year is based, for the most part, on the level of funding provided in previous years. The funding is not linked to the College's performance, the number of students, or the College's Strategic Plan but is based on the historical levels of funding adjusted for new, modified, or discontinued programs. Since funding is not linked to the College's performance or other outcomes, the current funding arrangement does not ensure that the College is operating efficiently.

- The College has $48 million in furniture and equipment. There are significant weaknesses in the controls over these assets as the College does not know what comprises the $48 million.

  The College has commenced itemizing these assets; however, they have not made as much progress as they had initially anticipated. The College's review of assets at several campuses has identified a number of problems including missing computers and other equipment. Our review also identified equipment that was missing or was scrapped without documentation to support this.

## 3.9 College of the North Atlantic

- At the time of our review, the College owned or leased 49 vehicles. The College spends approximately $180,000 annually to operate these vehicles. These vehicles and their operating costs are not being monitored. Furthermore, the College does not control and monitor usage of its 48 credit cards used for fueling its vehicles.

  At the time of our review the College did not have a current listing of their vehicles or their usage. The College also paid duplicate insurance premiums on some vehicles and paid insurance premiums on vehicles that they had scrapped or returned under lease agreements.

- The College is not always complying with the *Public Tender Act*. For example:

  - the *Act* requires that three quotes be obtained for purchases estimated to cost less than $10,000. This is not always done.

  - the *Act* requires that tenders be publicly advertised for purchases estimated to cost more than $10,000. This is not always done.

  - the *Act* does allow tenders not to be called for some purchases estimated to cost more than $10,000 if certain conditions, as defined in the *Act*, are met. However, these exceptions must be tabled in the House of Assembly and publicly disclosed. This is not always done.

  In addition, we identified a number of instances where the request for quotes or the public tender specified a specific make and/or model number. This is not within the spirit and intent of the *Act*.

- Travel expenditures in 1999-2000 totalled $1.7 million. The College has serious problems in the processing and payment of travel expenditures. Our review identified expenses which were paid twice, payments for personal items, payments which were not adequately supported and unauthorized entertainment expenses. In addition, the College's internal auditors issued a report in 1998 identifying a number of areas for improvement, including conference calls in lieu of meetings and reducing the rental of vehicles.

## 3.9 College of the North Atlantic

- At the time of our audit, the College had 93 cellular phones. Costs have been increasing over each of the past three years and total expenditures for this period are approximately $130,000. There is no monitoring of College cellular phone costs and there are no policies on the acquisition and administration of cellular phones.

- In September 1998, the College took over four programs from the Newfoundland Career Academy: Avionics Technician, Dental Assistant, Massage Therapist, and Professional Pilot. Up to July 2000, the College spent approximately $5.0 million on these four programs. Of particular concern were issues relating to two of the programs as follows:

    - Dental equipment was purchased in December 1998 through the Career Academy's trustee for $159,850 for the Dental Assistant program. In May 1999, just six months later, the equipment was sold for $57,557, a loss of $102,293.

    - Of the $2.9 million spent to complete the training of the students in the Professional Pilot program, approximately $2.1 million was paid to one company for flight training of the students without going to public tender.

      The Memorandum of Understanding required a payment of $1.44 million over the life of the 15 month agreement for 12,000 hours of flying lessons. In accordance with the agreement, the payment for the 12,000 hours was to be made regardless of the actual usage. Our review of how many hours were actually used as per invoices up to January 2000 indicated that only 7,270 hours of flight time was used, a shortage of 4,730 hours. Therefore, the College paid $567,600 for hours which were not used by the students.

- The single biggest expenditure for the College is salaries and employee benefits. Salaries and employee benefits totaled $55.0 million for the 1998-99 fiscal year. Of the $55.0 million, $47.8 million related to general operating salaries and $7.2 million related to salaries for contract training and special projects.

## 3.9 College of the North Atlantic

Our review indicated that expenditures for salary and employee benefits decreased subsequent to the reorganization in 1997; however, it has been increasing for the two years subsequent. In addition, officials at the College indicated that the number of permanent positions have also increased.

At the present time, the College does not have a salary position and monitoring system to indicate the approved positions within the College and the status and salaries of these positions. Until the College rationalizes the number of employees it requires, and the duties and qualifications of those employees, it does not know how many employees it needs to operate the College and deliver its programs. A salary position and monitoring system is necessary for an organization as large as the College so that the number of positions can be controlled. In addition, such a system is necessary to establish and control the salary budget of the College. Since the College is funded by the Department of Education, a salary position and monitoring system would be mutually beneficial.

## Findings and Recommendations

### Financial Position and Operating Results

From the establishment of the one college system in 1997 to 31 March 1999, there was a significant decline in the cash and working capital position of the College. As at 31 March 1997, which was the last year that the five colleges were required to report their financial position separately, they had combined cash of $3.0 million and working capital of $1.3 million. However, as at 31 March 1999 the College of the North Atlantic, which is comprised of the five former colleges, had a cash deficiency of $2.4 million and a working capital deficiency of $1.2 million. In 1999-00, the Department of Education provided the College with an additional $5.0 million in grant-in-aid and, as a result, the cash position and working capital improved as at 31 March 2000. Figure 2 presents the financial position of the College for the four years ended 31 March.

## 3.9 College of the North Atlantic

**Figure 2**

**College of the North Atlantic**
**Financial Position**
**31 March**
**($ Millions)**

| | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 3.0 | $ (2.7) | $ (2.4) | $ 3.0 |
| Accounts receivable | 5.3 | 6.3 | 8.3 | 5.8 |
| Other current assets | 1.1 | 1.1 | 0.8 | 1.0 |
| | 9.4 | 4.7 | 6.7 | 9.8 |
| Trust assets | 0.3 | 0.3 | 0.3 | 0.4 |
| Capital assets | 13.1 | 12.8 | 14.1 | 17.6 |
| | $ 22.8 | $ 17.8 | $ 21.1 | $ 27.8 |
| **Liabilities** | | | | |
| Current liabilities | $ 8.1 | $ 6.2 | $ 7.8 | $ 8.8 |
| Trust liabilities | 0.3 | 0.3 | 0.3 | 0.4 |
| Vacation pay accrual | 3.6 | 3.4 | 3.5 | 3.7 |
| Severance pay accrual | 7.2 | 6.8 | 7.1 | 7.9 |
| Equity | 3.6 | 1.1 | 2.4 | 7.0 |
| | $ 22.8 | $ 17.8 | $ 21.1 | $ 27.8 |

Source: Audited Financial Statements

The financial position of the College has been affected by a number of factors. These include: the operating deficit of $2.7 million in 1997-98, the method of funding the College, the College reorganization and the increase in accounts receivable.

### 1. Operating Results

In 1997-98, the first year of operation as one provincial college, the College incurred a deficit of approximately $2.7 million before expenses, such as depreciation, which do not affect the immediate cash position. Figure 3 shows these operating results as well as those for the preceding and succeeding years.

## 3.9 College of the North Atlantic

**Figure 3**

**College of the North Atlantic**
**Financial Results**
**For the Year Ended 31 March**
**($ Millions)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Grant-in-aid | $ 51.6 | $ 47.3 | $ 39.6 | $ 40.6 | $ 45.6 |
| Federal seat purchases and other | 5.0 | 3.1 | 3.0 | 5.8 | 7.3 |
| Apprenticeship | 1.1 | 1.1 | 1.4 | 1.9 | 1.8 |
| Student fees | 7.1 | 8.0 | 9.6 | 9.1 | 11.0 |
| Continuing education | 1.1 | 1.1 | 0.9 | 0.9 | 0.9 |
| Resale revenues | 4.3 | 4.0 | 3.4 | 3.6 | 4.0 |
| Contract training | 23.8 | 16.4 | 9.6 | 12.5 | 11.6 |
| Marketing and international | - | - | 0.5 | 1.0 | 0.7 |
| Special projects | - | - | 1.4 | 2.6 | 4.2 |
| Other | 1.4 | 1.7 | 0.5 | 0.5 | 0.3 |
| Total Revenue | 95.4 | 82.7 | 69.9 | 78.5 | 87.4 |
| **Expenditure** | | | | | |
| Instructional | 44.0 | 40.3 | 34.9 | 34.5 | 36.7 |
| Administration | 20.9 | 19.5 | 16.7 | 18.4 | 21.8 |
| Contract training | 22.5 | 14.6 | 8.8 | 11.7 | 10.9 |
| Student services | 5.6 | 8.4 | 4.5 | 4.0 | 5.2 |
| Resale | 3.2 | - | 3.6 | 3.8 | 4.4 |
| Special projects | - | - | 1.5 | 2.8 | 4.4 |
| Marketing and international | - | - | 1.3 | 1.7 | 1.5 |
| Community education | 1.0 | - | 1.3 | 1.3 | 1.0 |
| Total Expenditures | 97.2 | 82.8 | 72.6 | 78.2 | 85.9 |
| Operating surplus (deficit) before other items | (1.8) | (0.1) | (2.7) | 0.3 | 1.5 |
| **Other items** | | | | | |
| Severance pay accrual | 0.1 | 0.1 | 0.4 | (0.3) | (0.8) |
| Depreciation | - | - | (2.2) | (2.3) | 0.3 |
| Vacation pay accrual | - | - | 0.1 | - | - |
| Excess of expenditures over revenues | $ (1.7) | $ 0.0 | $ (4.4) | $ (2.3) | $ 1.0 |

Source: Audited Financial Statements

In 1997-98 revenues decreased by $12.8 million from the previous year; however, expenditures only decreased by $10.2 million and, as a result, the College incurred a deficit of $2.7 million. Approximately $1.3 million of this deficit was budgeted with the intention of utilizing the surpluses of the former colleges.

Although the College currently allocates its overhead costs of $22.4 million to its regular programs, no overhead costs are allocated to contract training programs. As a result, the College determines the surplus or deficit of contract training programs without taking into consideration overhead expenditures. If these programs were charged with some of the overhead expenditures, some of the programs could be operating at a deficit. If overhead costs were allocated, the College might make different decisions on which programs to provide and how much to charge for those programs.

### 2. Funding of the College

The College of the North Atlantic is publicly funded with most of the funding provided by the Department of Education as a grant. The level of funding provided by the Department each year is based, for the most part, on the level of funding provided in previous years. The funding is not linked to the College's performance, the number of students, or the College's Strategic Plan but is based on the historical levels of funding adjusted for new, modified, or discontinued programs.

Our review of the College system in 1995 indicated that the amount of funding provided has, for many years, been determined in this matter. Since funding is not linked to the College's performance or other outcomes, the current funding arrangement does not ensure that the College is operating efficiently. Figure 4 indicates the funding provided by the Department and the number of students enrolled each year since 1995-96.

## 3.9 College of the North Atlantic

**Figure 4**

**College of the North Atlantic**
**Revenues, Expenditures and Students**
**($ Millions)**

| | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Grant in aid | $ 51.6 | $ 47.3 | $ 39.6 | $ 40.6 | $ 45.6 |
| Federal revenue | 6.1 | 4.2 | 4.4 | 7.7 | 9.1 |
| Operating | 13.9 | 14.8 | 14.4 | 14.1 | 16.2 |
| Contracts/special projects | 23.8 | 16.4 | 11.5 | 16.1 | 16.5 |
| | 95.4 | 82.7 | 69.9 | 78.5 | 87.4 |
| Expenditures | | | | | |
| Salaries and benefits | 57.2 | 52.2 | 46.9 | 47.8 | 50.1 |
| Contracts/special projects | 22.9 | 15.2 | 10.4 | 14.5 | 15.3 |
| Other operating | 17.1 | 15.4 | 15.3 | 15.9 | 20.5 |
| | 97.2 | 82.8 | 72.6 | 78.2 | 85.9 |
| Operating surplus (deficit) | $ (1.8) | $ (0.1) | $ (2.7) | $ 0.3 | $ 1.5 |
| Students | | | | | |
| Full time | 8,226 | 7,786 | 6,974 | 6,245 | 7,731 |
| Part time | 4,411 | 16,046 | 14,467 | 17,302 | 15,381 |
| Contract | - | 1,553 | 1,343 | 1,932 | 1,324 |
| | 12,637 | 25,385 | 22,784 | 25,479 | 24,436 |

Source: College of the North Atlantic financial statements, financial records, budget and registration reports.

As indicated in Figure 4, both costs and government funding decreased in 1997-98 as did the College's full time enrolment; however, in 1998-99 costs and government funding increased in comparison to the full time enrolment. In 1999-00 salaries and operating costs combined exceeded those when the Colleges operated separately in 1996-97.

In addition to funding operating costs, Government also provides capital grants to the College. Each of the former colleges received approximately $500,000 annually for capital purchases. In 1996-97, 1997-98 and 1998-99, the new College received $500,000 annually for capital purchases. In 1999-00, the College received $1.0 million for capital purchases.

### 3. College Reorganization

In 1996, Government announced that it was reorganizing the college system and consolidating the five colleges existing at that time into one college now known as the College of the North Atlantic. The objectives of the reorganization were outlined in a letter from the Minister of Education to the President of the College on 6 August 1996. In addition, the 1996 Budget Speech stated that *"the consolidation of the administration of the five existing colleges into one single College is expected to save $3.5 million in 1996-97."*

The financial analysis prepared by the College, which covered the period 1995 to 1999, indicated that the target savings of $3.5 million were realized. Financial information indicated that administrative expenses in 1995-96 totalled approximately $20.9 million and reduced to $16.7 million in 1997-98. However, in 1998-99 these administrative expenses increased to $18.4 million and further increased to $21.8 million in 1999-00.

During our audit of the College, one of the challenges faced was obtaining comparative financial information from 1995 to 1999. Comparison between revenues and expenditures in the new College system, and revenues and expenditures in the former College system was especially difficult because of the differences in the way revenue and expenditure items were grouped. Since the new College has been in existence since 1997, it is extremely important that it track revenues and expenditures from one year to another to determine trends and identify the specific reasons for increases and decreases in revenue and expenditure items to ensure proper control.

#### Capital Assets

As at 31 March 1999, the College reported $55.1 million in capital assets. Figure 5 provides information on these assets.

## 3.9 College of the North Atlantic

**Figure '**

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**College of the North Atlantic**
**Capital Assets**
**31 March**
**($ Millions)**

| Capital Asset Category | 1999 | | | 1998 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Furniture & equipment | $ 48.0 | $ 37.6 | $ 10.4 | $ 9.1 |
| Vehicles | 2.5 | 2.4 | 0.1 | 0.1 |
| Capital improvements | 4.6 | 1.0 | 3.6 | 3.6 |
| Total | $ 55.1 | $ 41.0 | $ 14.1 | $ 12.8 |

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Source: 1999 Audited Financial Statements

In April 1998 the College established operational policies and procedures governing the acquisition, movement, disposal, identification and recording of capital assets using its Fixed Asset Inventory Control Management System. Beginning in April 1998, the College intended to record all capital asset purchases in this new system and have each of its 18 campuses identify assets that were acquired before that date and in their possession.

Our review of this area in February 2000 indicated the following:

- only 5 of the 18 campuses had recorded assets which were purchased prior to April 1998;
- assets acquired between April 1998 and September 1999 have been recorded by the 18 campuses; and
- none of the capital assets purchased since September 1999 have been recorded in the fixed asset system.

As a result, the College is not controlling its capital assets.

## 3.9 College of the North Atlantic

The five campuses which have identified and verified their capital assets prior to April 1998 are Bonavista, Clarenville, Gander, Grand Falls-Windsor and Port aux Basques. We reviewed these capital asset reports to determine whether the College's records of capital assets for these 5 campuses were accurate and reliable. We determined the following:

- The College's review of the Bonavista campus identified 6 computers costing $15,143 and 5 other assets totaling $3,195, which were missing without explanation. In addition, 25 computers totaling $71,713 were reported as scrapped from a Programmer Analyst course, although there were no records at the College supporting this.

- The College's review of the Clarenville campus identified 4 items totaling $8,419 missing without explanation, 2 of which were computers.

- The College's review of the Gander campus identified approximately $3.1 million in capital assets which were previously recorded on the former campus's capital asset listings and located at the campus. However, another $213,053 in assets, which were not on this listing, were also identified during the review. The review also identified $553,256 of inventory items recorded on the former campus's inventory listings which were not located at the campus because they were items that were identified as scrapped, not found or slated for auction/disposal. As a result of these adjustments, it was determined that the inventory listings provided for the Gander campus were not accurate.

- The College's review of the Grand Falls-Windsor campus reported a number of challenges encountered in completing the review. The inventory system was reported by College staff as being in "total disarray", no one inventory listing could be used as a starting point, and inventory documentation was not always completed or recorded. An inventory summary reported capital assets of approximately $1.8 million. Of this amount, $154,800 was recorded as being stored at another campus but a subsequent review by College staff of this campus did not locate any of these capital assets. Another $243,274 in capital assets which were included on the listing of inventory for the Grand Falls-Windsor campus were located at 3 other campuses.

## 3.9 College of the North Atlantic

The review of the Grand Falls-Windsor campus also made reference to 2,289 pieces of donated artwork with an appraised value of $2 million which was being stored in a secured room at the campus. A review of College documentation confirmed 2,289 pieces of artwork were donated at an appraised value of $2.0 million for which the College issued income tax receipts. The artwork donated has been listed, appraised and secured at the Grand Fall-Windsor campus; however our review identified the following:

- Approximately 122 pieces have been distributed; however, our review identified that 102 of these pieces were not properly requisitioned as the campus or individual requisitioning the artwork were not recorded. Initially the College could not tell us where the 102 pieces were located; however, a subsequent search by College staff located the art work.

- Officials at the College informed us that Revenue Canada is presently reviewing the circumstances surrounding the donated artwork.

- The College's review of the Port aux Basques campus identified $105,294 in assets that were on the campus listing but could not be located by College staff. Most of these assets were explained as being written off but not removed from the listings; however, no explanation was provided for 4 assets totalling $5,843 (2 computers, a modem and a welding machine) which could not be located.

Although the College's policy requires the identification in the computerized inventory system of the building and room numbers where assets are located, room numbers are not always recorded. Without a specific location for each asset they are difficult to locate.

We carried out additional procedures on two main types of assets, computer equipment and vehicles.

### 1. Computer Equipment

Items such as computers, printers and peripheral equipment are assets which are moveable and susceptible to theft. As indicated previously, the College has not recorded all of its capital assets which includes computer equipment. For the computer equipment which has been recorded, the amount recorded totalled $6.1 million.

## 3.9 College of the North Atlantic

Computers (CPU, monitor, and keyboard) are tagged using one ID tag. This tag is placed on the CPU while the monitor and keyboard are marked with the ID # and noted as "2 of 3" and "3 of 3". College staff indicated that it is not uncommon that monitors and keyboards do not match with the CPU number. As monitors and keyboards are moved around, the transfers are not recorded and as a result it is not possible to track these items.

A sample of 48 computer related assets was selected for examination as part of our review. Twelve of these assets were selected from purchases made during 1998 and 1999, and 36 items were selected from the capital asset listing of computer equipment. These items were selected from 3 sites, 11 from Stephenville, 11 from Corner Brook, and 26 from St. John's. The results of our review are as follows:

- 15 assets were located as identified by the capital asset system and were recorded in accordance with College policy.
- 22 assets were located either in a different room or building from that listed in the capital asset system.
- 3 assets were located although they were not assigned either a room number or a building in the capital asset system, as required by College policy.
- 3 assets were not available for our initial review as staff indicated that these assets were on loan to students or instructors. One computer was taken home by an instructor who, we were told, required the computer to work after hours, a digital camera was on loan to a student, and a CD rom drive was replaced under warranty and this replacement was being used by an instructor. There were no records at the College indicating that these capital assets were on loan to the individuals indicated.
- 5 computers (CPU, monitor and keyboard) from a sample of 26 assets selected for examination at the Prince Philip Drive campus could not be located.

### 2. Vehicles

The College has approximately $2.5 million invested in vehicles. The College does not maintain an up to date listing of its vehicles; however, a listing prepared during our review identified 55 vehicles as shown in Figure 6.

## 3.9 College of the North Atlantic

**Figure 6**

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**College of the North Atlantic**
**Vehicles**
**31 March 2000**

| Location | Passenger | | Heavy Equipment | Scrapped | Total | Operating Costs | |
|---|---|---|---|---|---|---|---|
| | Owned | Leased | | | | 2000 | 1999 |
| Baie Verte (Lease in 1998) | 1 | | | | 1 | $ 700 | $ 8,100 |
| Bonavista | 1 | | | | 1 | 900 | 500 |
| Burin | 1 | | | | 1 | 1,300 | 900 |
| Carbonear | 2 | | | | 2 | 2,100 | 3,300 |
| Clarenville | 2 | | | | 2 | 3,200 | 4,600 |
| Corner Brook | 5 | 1 | | 2 | 8 | 19,000 | 27,000 |
| Gander | | 1 | | | 1 | 4,600 | 6,500 |
| Grand Falls-Windsor | 1 | 1 | | | 2 | 6,300 | 9,600 |
| Happy Valley-Goose Bay | 3 | | | | 3 | 6,100 | 17,900 |
| Labrador West | 1 | | | | 1 | 1,100 | 2,000 |
| Placentia | 2 | | 1 | | 3 | 1,000 | 1,900 |
| Port Aux Basque | 1 | | | 1 | 2 | 2,200 | 3,200 |
| Seal Cove | 1 | | 1 | | 2 | 500 | 1,900 |
| St. Anthony | 1 | | | | 1 | 4,000 | 2,500 |
| St. John's | 4 | 3 | 1 | 2 | 10 | 32,100 | 17,400 |
| Stephenville (Note) | 11 | | 3 | 1 | 15 | 96,200 | 82,200 |
| | 37 | 6 | 6 | 6 | 55 | $181,300 | $189,500 |

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Source: College capital asset listings, insurance policies and vehicle registration information
Note: Stephenville includes $78,800 (1999 - $64,300) in operating costs for the commercial transport program.

Our review of the College's controls over its vehicles identified the following:

- A review of the College's vehicle insurance policy identified five instances where the College was paying insurance for vehicles which had been previously scrapped, sold or returned to the leasing company. Total overpayments of premiums for 1998 and 1999 were $4,500. One overpayment was the result of the same vehicle being included twice on the insurance schedule for 1999. In addition, information recorded on the insurance schedule for three vehicles did not agree with the College's listing. The serial number for one vehicle and the model year of two other vehicles were incorrectly recorded on the insurance schedule.

## 3.9 College of the North Atlantic

Our review of the College's capital asset listing also identified three vehicles that were not on the insurance schedule. College staff indicated that these vehicles were scrapped. However, our review determined that two of the vehicles had been sold at a public auction to third parties while the other vehicle is still registered to the College.

- Log books or sign out sheets are not used to monitor vehicle usage. Information such as the name of the employee using the vehicle, dates and time of use, purpose for usage, and distance driven is not recorded and monitored to ensure vehicles are used only for College business or to ensure vehicles are required at all. Without records on vehicle usage information, the College cannot properly manage its vehicles and related costs.

- The College does not record or monitor the operating cost of each vehicle. A review of vehicle operating costs by site disclosed that operating costs in 1999-00 ranged from under $1,000 per vehicle in Baie Verte, Bonavista, Placentia and Seal Cove to over $4,000 per vehicle in St. John's, Gander and St. Anthony.

  As part of our review of operating costs we assessed fuel purchases made through 39 of the College's 48 individual vehicle gas credit cards. Our review indicated that 1 card was used to purchase approximately 4,400 litres of fuel ($3,000) from April 1999 to February 2000 and 6 other cards had fuel purchases in excess of 2000 litres ($1,500) each. In addition, these cards collectively were used 74 times on weekends ranging from one time for 6 cards to 10 times for one card. While College officials were able to provide plausible explanations, for the most part, when we brought these examples to their attention, fuel consumption is not being monitored by the College.

  If operating costs are not monitored, it is impossible to determine whether these costs are reasonable and bona fide, whether it is more cost effective to purchase or lease a vehicle, or whether a vehicle should be replaced because operating costs are too high.

- The College does not control and monitor usage of its 48 gas cards used for fueling its vehicles. Forty-six of these gas cards are assigned to specific vehicles and two cards were designated for campus use. Our review identified instances where the cards were being used to service other than the assigned vehicle (e.g. rental car). In addition, our review of travel claims also identified situations where claimants indicated that gas cards were not found in the assigned vehicle.

  Gas card receipts are supposed to be returned to the accounts payable section and matched to the vendor statement prior to payment; however, very few gas receipts were forwarded to the accounts payable section and payments were made regardless. Our review of one employee's travel claims identified five gas card receipts totalling $124 that were included on their claim and also paid directly to the gas company by the College. As a result, there was a duplicate payment to this employee.

## Purchasing

### 1. Public Tender Act

The *Public Tender Act* requires the College to invite tenders where the estimated cost of goods and services is over $10,000 or the public work is over $20,000. The *Act* provides exceptions where tenders may not be required and in these cases the Minister of Works, Services and Transportation must be informed, who in turn must table the information in the House of Assembly. The purpose of the legislation is to provide all suppliers with an equal opportunity to bid.

The *Act* also states that where a tender is not required to be tendered because the goods or service is estimated to cost less than $10,000 ($20,000 for public work), the College must obtain quotations from at least three legitimate suppliers, or establish for the circumstances a fair and reasonable price for the goods or services or public work through direct quotation substantiated by reference to catalogues, price lists or in a manner which the College considers advisable.

A sample of 8 purchases under $10,000 (and therefore not requiring a public tender) were examined to determine whether three quotes were obtained as required by the *Public Tender Act*. In addition, we examined 28 purchases and 7 open order purchases for such items as food supplies, janitorial supplies, leases, subscriptions and fuel purchases over $10,000 (and therefore requiring a public tender) to determine compliance with the *Public Tender Act*.

## 3.9 College of the North Atlantic

Of the eight items requiring three quotes (i.e. purchases were less than $10,000 each) our review indicated the following:

- Two purchases resulted from the obtaining of three quotes and therefore complied with the *Act*.
- Five purchases were made without the required three quotes and therefore did not comply with the *Act*. Furthermore, one of these purchases required a specific make and model number which contravenes the spirit and intent of the *Act*.
- One item was publicly tendered as permitted under the *Act* but only one vendor submitted a bid. However, a specific make and model number was requested and therefore this tender did not comply with the spirit and intent of the *Act*.

Of the 35 items requiring public tenders our review indicated:

- 22 items were publicly tendered; however, 5 of the 22 tenders specified a particular make and model number which does not comply with the spirit and intent of the *Act*. The remaining 17 items were acquired in accordance with the *Act*.
- 13 items were not publicly tendered. For the 13 items not publicly tendered we determined that:
    - 3 items were forwarded to the Minister of Works, Services and Transportation for tabling in the House of Assembly. These purchases were excluded from the tendering process because one was deemed by the College to be a pressing emergency and two were determined by the College as being a sole source purchase. The two sole source purchases related to used heavy equipment and wire rope. While it is difficult to determine whether the purchases were a pressing emergency or a sole source purchase, the College did comply with the process established by the *Act* by informing the Minister of Works, Services and Transportation of the situation.

## 3.9 College of the North Atlantic

- The College claimed that 1 item required to be tendered was exempted under section 3.(2)(c) of the *Act*. This section states the College is not required to invite tenders if work can be completed more expeditiously or economically by the employees of the College or, with the prior approval of Treasury Board, the employees of another government funded body, in this case the Department of Works, Services and Transportation. However, the College could not provide any evidence that Treasury Board approved this item.

- 3 items related to facility leases. Two of these leases were with the Labrador School Board, a government funded body, for which the *Act* provides an exemption if the space is acquired at fair market value. There was no evidence that the College determined that the lease cost was at fair market value. We note that both leases were extended beyond the original lease term and renewal period under the same lease arrangements. One of the leases was originally signed in 1989, and the other in 1994.

  The other lease was with a private individual at an annual lease cost of $16,000, exclusive of tax. The *Act* states that if the annual rental value of the space is below $30,000 and the President of the College, in view of the nature of the lease, deems it is not advisable to invite tenders, that an exemption can be made not to tender; however, the Minister of Works, Services and Transportation must be notified so that the information can be tabled in the House of Assembly. This was not done and therefore this purchase did not comply with the *Act*.

- 6 purchases exceeding $10,000 each were not publicly tendered and were not tabled in the House of Assembly as required by the *Act*. These were as follows:

| Date | Reference # | Description | Amount (HST Inc.) | Client Explanation |
|---|---|---|---|---|
| 11/16/98 | 5003004801 | Building construction/repairs | $ 18,285 | Three quotes requested |
| 12/1/98 | 7002006272 | Dental equipment | $ 146,050 | Program taken over from Career Academy |
| 5/11/99 | 5003007556 | Laboratory equipment | $ 57,433 | Only known source |
| 9/29/99 | 4002011186 | Video imaging scope | $ 14,155 | Only known source for used piece of equipment |
| 12/98-12/99 | 7004000129 (Contract) | Oil Battery Loop construction | $ 442,750 | Only known source |
| Open | 2001010990 | Magazine subscriptions-one campus | $ 10,665 | Subscriptions not tendered, magazine specific to vendor. |

Our review of tender files identified a lack of documentation of the College's analysis of tender bids and, as a result, it was difficult to determine whether selected bidders were meeting required specifications. Adequate information was not always on file to determine whether products tendered had met specifications.

### 2. Travel Expenditures

From 1 April 1997 to 31 March 2000 the College spent $5.4 million on travel related expenses as summarized in Figure 7.

**Figure 7**

**College of the North Atlantic**
**Travel Expenses**
**Fiscal Year**
**($ Millions)**

| Description | 1997-98 | 1998-99 | 1999-00 | Total |
|---|---|---|---|---|
| Staff travel | $ 1.6 | $ 1.5 | $ 1.4 | $ 4.5 |
| Non-staff travel | 0.1 | 0.2 | 0.2 | 0.5 |
| Recruitment/Relocation | 0.1 | 0.2 | 0.1 | 0.4 |
| | $ 1.8 | $ 1.9 | $ 1.7 | $ 5.4 |

Source: College financial records

## 3.9 College of the North Atlantic

The College's internal auditors conducted a review of travel in September 1998 and identified a number of areas for improvement, including conference calls in lieu of meetings, reducing the number of staff attending conferences and Provincial team meetings, and reducing the rental of vehicles. The internal auditors found that in many cases the documentation and explanations to support business lunches and meals at meetings were lacking. The internal auditors concluded that efficiencies could be achieved in the travel area.

As travel represents one of the College's larger expenditures other than salaries, we reviewed the travel expenditures of 19 employees for the fiscal year ending 31 March 1999 and 38 employees for the fiscal year ending 31 March 2000. Our review indicated that there were significant problems in the approving and monitoring of travel expenses, and a lack of documentation to support the payment of travel expenses. These include the following:

- Employees are submitting claims for expenses that have already been paid by either the College directly or to a travel agency. These include airfare, conference fees, meals, gas and car rental. Three employees were reimbursed for airfare that had already been paid by the College. Although two of these payments totalling $868 were detected by College staff in August and October 1999, the College had not recovered the duplicate payments at the time our audit commenced in February 2000. The third duplicate payment for $420 was detected as a result of our audit and was subsequently recovered by the College during our audit.

  In other examples employees claimed per diem meal allowances although meals were included as part of the conference fees or meals were claimed separately as business lunches or entertainment. Government policy prohibits this practice.

- Travel claims lacked adequate documentation to support the reason for travel. We identified two instances where employees traveled to conferences early or stayed after the conference was over and claimed expenses without adequate explanation. Other instances were identified where employees attended conferences or seminars and then traveled to other locations without any explanation for the travel.

## 3.9 College of the North Atlantic

- Many expenses on the travel claims lacked the required supporting documentation as required by College policy and good management practices. Airfare was reimbursed based on the travel agents itinerary rather than the ticket stub or original invoice, conference fees were reimbursed based on the registration information rather than the original receipt and claims for business meals lacked documentation on who was entertained.

- Travel claims included questionable expenses such as accommodations and meals for a day while on sick leave, internet membership fees and valet expenses without receipts.

- During 1999-00 one employee was provided with two standing travel advances totalling $5,500 even though this employee had a College credit card and no trips for College business were undertaken by the employee around that time period. This same employee incurred approximately $9,000 on their College credit card which was not claimable (i.e. were of a personal nature). The College does not permit the use of College credit cards for personal expenses.

- The most economical means of travel was not always used and no explanation was provided on the claims. For example:

  - One employee on two occasions rented a vehicle at a cost of $63 and $57 to travel 10 and 8 kilometers respectively.

  - Hotel rates on 7 occasions were at rates between $135 and $177 per night while staff were on travel status in St. John's. Normally, hotel rates claimed by College staff while staying in St. John's were approximately $85 per night.

  - One employee claimed $1,338 in additional insurance for rental vehicles. If this employee was provided with and used a College corporate credit card this insurance would have automatically been provided through the credit card at no additional cost.

## 3.9 College of the North Atlantic

- In March 1998 the College provided certain staff with an American Express corporate credit card. The memo to these employees indicated that the card was being provided for use in College related travel. In addition, the agreement between the College and the AMEX Bank of Canada has an option whereby the College can choose to authorize employees to use the card for personal charges. This option was not selected by the College; however, our review identified instances where the cards were being used for personal reasons.

  For example, as indicated previously, one employee incurred $9,000 in charges in November 1999 without any reimbursement from the College. Another employee, in November 1998, withdrew the maximum $1,000 per month for two months; however, this employee was not on travel status at the time. No action was taken by the College to prevent these and other uses of the College card for personal use although the College receives a monthly report of credit card usage and balances. As at 31 March 2000, 71 employees owed $64,375 on the 166 corporate credit cards. Approximately $13,900 of this amount was over 60 days old and owed by 9 employees.

- From November 1997 to March 2000 the College reimbursed one employee approximately $117,000 for travel and entertainment expenses. Many of this employee's claims included items not normally reimbursable under Government policy. These included liquor purchases, unsupported entertainment expenses, staff gifts and unsupported valet services. For the year ended 31 March 1999 this employee claimed $329 in valet services and $292 in liquor purchases and for the current fiscal year, claims have been paid for $648 in liquor purchases and $116 in valet charges. In addition, claims for the period 1 April 1999 to 31 December 1999 were submitted for $3,145 in dinner meetings that were only supported with credit card slips. These slips often did not identify the names of the individuals attending the meetings as required by Government policy. On two occasions dinner expenses were paid on two credit card slips with the total each day exceeding the daily maximum allowable under Government's executive travel rules and College policy.

## 3.9 College of the North Atlantic

- A detailed review of one employee's travel claims totalling $39,688 for the period 1 April 1998 to 31 March 2000 identified approximately $1,192 in overpayments resulting from duplicate expense claims and claims for personal expenses. This does not include any claims for which the reason for travel is unknown. These amounts include $90 for personal mileage while claiming car rental expenses, $124 for gas already paid for by the College on its own credit card, $159 for meal allowances while also submitting receipts for the meals, $632 for travel expenses while on vacation, $142 for claiming same expenses on two different claims, and $45 for gas and taxi fares while claiming private vehicle mileage on the same day or not having a rental vehicle. In addition, this employee's travel claims lack a detailed description for the travel or the approval for travel. From July 1998 to November 1999 10 out-of-province trips lacked a pre-approved journey authorization. There were also a number of instances where hotel bills included high telephone charges. For example, for a three night period in February 1999 telephone charges were $165 and for a six night period in October 1999 telephone charges were $239.

- The College is not properly calculating its eligible Harmonized Sales Tax or Goods and Services Tax rebate on items such as meal allowances, mileage, taxi fares and various other per diem rates. We suggested that the College consult with the Federal government to resolve the issue.

### 3. Other Items

### (a) Advertising

The College has developed a policy dealing with marketing activities. Although the policy delegates most of the responsibility for marketing the College to the Director of Marketing, it does not define the extent of discretionary advertising or place any limits on the type and amount of advertising. Over the past 3 fiscal years, the College reported advertising expenditures in excess of $2.4 million as shown in Figure 8.

**Figure 8**

**College of the North Atlantic**
**Advertising expenditures**
**For the year ending 31 March**
**($ 000's)**

| Advertising Expenditure Code | 1998 | 1999 | | 2000 | | Total |
|---|---|---|---|---|---|---|
| | Actual | Budget | Actual | Budget | Actual | Actual |
| Tender Advertising | $ 25 | $ 10 | $ 10 | $ 13 | $ 13 | $ 48 |
| Courses/Student Recruitment | 196 | 250 | 359 | 157 | 178 | 733 |
| Staff recruitment | 81 | 28 | 122 | 169 | 136 | 339 |
| General Advertising | 311 | 196 | 330 | 659 | 511 | 1,152 |
| Other | 76 | - | 7 | - | 3 | 86 |
| Total | $ 689 | $ 484 | $ 828 | $ 998 | $ 841 | $ 2,358 |

Source: College financial records

As indicated in Figure 8, the College significantly exceeded its advertising budget in 1998-99 and the 1999-00 budget was increased substantially. Given that advertising expenditures for a publicly funded college system is now approximating $1 million annually, the College should establish a more comprehensive policy to govern advertising.

### (b) Cellular Phones

The use of cellular phones is increasing and cost the College approximately $133,000 in total in the last three years. This cost was $30,000 for 1997-98, $47,000 for 1998-99, and $56,000 for 1999-00. Our review identified the following:

- The College does not have any policy relating to cellular phones. In the absence of policies, the College cannot adequately monitor and control cellular phones.

## 3.9 College of the North Atlantic

- There is no listing of College cellular phones. A cellular phone directory listing of 79 cellular phone numbers was compiled by the College staff subsequent to our enquiry; however, we identified 11 additional cellular phone numbers from a listing provided by Newtel Mobility and 3 additional numbers from a review of College expenditures.

  College staff informed us that one of the 93 cellular phones was a private number; however, our review indicated that the College is paying the bills. Our review of the expense accounts for this cellular number indicated that from October 1997 to August 1999 the College was charged $2,826 and from September 1999 to January 2000 it was charged $397.

- The College is not monitoring the monthly costs of each cellular phone. Our review identified the following:

  - Two cellular phone numbers were canceled in February and March 2000 as one belonged to a former employee and the employee with the second number received a new phone. Cellular charges totalling $52 were paid for three months after the employee left, while four month's flat rate charges, totalling $115, were paid while a current employee had the second cellular phone.

  - A review of expenses charged to the telephone expense code indicated that some items were charged to the incorrect general ledger program accounts. If expenditures are not charged to the appropriate program, the College is unable to monitor the actual costs of this program's telephone service or variances against budgeted expenditures.

  - A statement from Newtel Mobility dated 14 October1999 and paid by the College included one time charges for $975. College staff did not know what the $975 was for.

- There is no analysis of telephone charges to ensure the College only pays for business usage. High cellular phone expenses over the past two fiscal periods have been charged to a number of accounts. Some of those bills were approximately $500 per month.

- There is no criteria to assess the need for a cellular phone. Different long distance packages are purchased by employees without any consultation with the College.

### (c) Career Academy Expenditures

In September 1998, the College took over four programs from the Newfoundland Career Academy: Avionics Technician, Dental Assistant, Massage Therapist, and Professional Pilot. Up to July 2000, the College spent approximately $5.0 million on these four programs as shown in Figure 9.

**Figure 9**

**College of the North Atlantic**
**Career Academy Course Expenditures**
**September 1998 to July 2000**
**($ 000's)**

| | Avionics Technician | | Dental Assistant | | Massage Therapist | | Professional Pilot | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Salaries | $ 417 | $ 717 | $ 107 | $ 96 | $ 589 | $ 588 | $ 320 | $ 478 | $ 1,433 | $ 1,879 |
| Equipment | 70 | 60 | - | - | - | - | - | - | 70 | 60 |
| Capital assets | 100 | 41 | 140 | 140 | - | - | 10 | 4 | 250 | 185 |
| Supplies | 120 | 372 | 37 | (13) | 12 | 27 | 116 | 80 | 285 | 466 |
| Other | 15 | 34 | 58 | 58 | 46 | 12 | 2,285 | 2,296 | 2,404 | 2,400 |
| | 722 | 1,224 | 342 | 281 | 647 | 627 | 2,731 | 2,858 | 4,442 | 4,990 |
| Less: Revenue | 737 | 430 | 147 | 137 | 635 | 502 | 2,731 | 888 | 4,250 | 1,957 |
| Payments from Department of Education | - | 633 | - | 144 | - | 164 | - | 2,000 | - | 2,941 |
| Net Cost | $ (15) | $ 161 | $ 195 | $ 0 | $ 12 | $ (39) | $ 0 | $ (30) | $ 192 | $ 92 |
| Students registered | 104 | | 66 | | 67 | | 86 | | 323 | |

Source: College of the North Atlantic financial and registration records.

## 3.9 College of the North Atlantic

The Department of Education informed the College that it would be reimbursed for all *"necessary costs incurred by the College to enable the students, who were in the process of taking a course of study at the Career Academy when the Academy ceased operating 14 August 1998, to complete that course of study"*. In 1998 the College received approximately $800,000 from the Department of Education covering up-front costs and invoiced the Department another $2.2 million on 31 March 2000 to cover its expected program deficits for a total reimbursement to the College of approximately $3.0 million. The College directly funded $160,000 for expenses relating to equipment purchases.

Our review of the four programs assumed by the College identified the following:

- Dental equipment was purchased in December 1998 through the Career Academy's trustee for $159,850 for the Dental Assistant program. In May 1999, just 6 months later, the equipment was sold for $57,557, a loss of $102,293. Our attempts to verify the appraised value of the dental equipment as of December 1998 were unsuccessful as the trustee would not release this information without the approval of the appraisal firm. File documentation indicates that the College may have paid for the dental equipment at the original cost of the equipment, which was four to five years old.

- The Professional Pilot program was originally budgeted at $2.5 million and was increased to $2.7 million in November 1998. Expected completion date for the training of the 86 students in the Professional Pilot program varied, with the latest being in December 1999. Of the 86 students registered only 45 finished their training. Actual costs as at June 2000 totaled $2.9 million. A number of concerns were identified:

    - Of the $2.9 million spent to complete the training of the students in the Professional Pilot program, approximately $2.1 million was paid to one company for flight training of the students without going to public tender. Discussions with officials at the Department of Education indicated that this company was the only company that could provide these services. Furthermore, officials at the Department of Education indicated that there was no documentation to support the Department's decision to select the flight training company. A Memorandum of Understanding (MOU) was entered into between the company and the College on 8 October 1998.

- The MOU required a payment of $1.44 million over the life of the 15 month agreement for 12,000 hours of flying lessons. In accordance with the agreement, the payment for the 12,000 hours was to be made regardless of the actual usage. Our review of how many hours were actually used as per invoices up to January 2000, indicated that only 7,270 hours of flight time were used, a shortage of 4,730 hours. Therefore, the College paid $567,600 for hours which were not used by the students.

  Even though the College paid for 4,730 hours of flight time that it did not use, the College had to pay an additional $74,457 for 449 hours of flight time for the period January to May 2000 because some of the students did not complete their training until three months after the expiration of the original agreement. The rates charged for the additional time were the same as the rates stipulated in the original agreement for additional training.

- A review of invoices identified 553 time slots where students did not show up for the required training at various times to February 2000. The College was charged $40 for each of these unfilled slots for an extra cost of $22,120. The MOU did not include any clause pertaining to the payment for unfilled time slots.

- At the onset of the program there were 72 students registered from the former Career Academy whose names were attached to the MOU. We were informed by College officials that 45 students graduated from this program at the College.

- The Avionics Technician program's actual costs totalled approximately $1.2 million. This program is located in Gander and is separate from the College's own Aircraft Maintenance and Engineering program. Our review identified that a major cost of this program is overtime salaries. Since the program began, the College paid out $439,816 in overtime, which is 68% of the $650,247 total payroll cost, excluding benefits.

### Payroll

The single biggest expenditure for the College is salaries and employee benefits. Salaries and employee benefits totaled $55.0 million for the 1998-99 fiscal year, approximately 70% of total expenditure. Officials at the College could not provide us with an analysis of how the staff in the College system changed as a result of the reorganization in 1997.

The audited financial statements of the College for the past five years indicate that expenditures for salary and employee benefits decreased subsequent to the reorganization in 1997 but for the past two years has been increasing as follows:

| | |
|---|---|
| 1995-96 | $57.2 million |
| 1996-97 | $52.2 million |
| 1997-98 | $46.9 million |
| 1998-99 | $47.8 million |
| 1999-00 | $50.1 million |

While salary and employee benefits have increased, officials at the College indicated that the number of permanent positions also increased. At the present time, the College does not have a salary position and monitoring system to indicate the approved positions within the College and the status and salaries of these positions. Until the College rationalizes the number of employees it requires, and the duties and qualifications of those employees, it does not know how many employees it needs to operate the College and deliver its programs. A salary position and monitoring system would also facilitate the budget process and help establish a base salary budget for the College. Since the College is funded by the Department of Education, a salary position and monitoring system would be mutually beneficial during the budgetary process.

## 3.9 College of the North Atlantic

At the time of our review we were informed that the College was in the process of developing staffing information on the College's human resources. Figure 10 provides a breakdown of the employees on the payroll at the particular times indicated.

**Figure 10**

**College of the North Atlantic**
**Staffing Information**

| | April 1996 | December 1997 | December 1998 | | December 1999 | |
|---|---|---|---|---|---|---|
| | | | Perm. | Other | Perm. | Other |
| Management | 92 | 62 | 58 | 1 | 60 | 3 |
| Support | 381 | 383 | 274 | 127 | 305 | 97 |
| Faculty | 694 | 777 | 498 | 295 | 511 | 301 |
| Non-union/non-management | - | 6 | 10 | 1 | 9 | 2 |
| Students | - | 119 | - | 139 | - | 124 |
| | 1,167 | 1,347 | 840 | 563 | 885 | 527 |

Source: College of the North Atlantic

For the year ended 31 March 1999, the College made payments of $43.4 million as regular salaries to 1,823 separate employees and is expecting to make payments of $44.7 million to 1,876 employees for the year ending 31 March 2000 as shown in Figure 11.

**Figure 11**

**College of the North Atlantic**
**Salary Stratification**

| | Actual to 31 March 1999 | | Actual to 28 February 2000 | | Projected to 31 March 2000 | |
|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount |
| 0 - $20,000 | 865 | $ 4,724,886 | 925 | $ 4,649,965 | 881 | $ 4,118,648 |
| $20,001 - $40,000 | 463 | 12,941,293 | 507 | 14,429,764 | 486 | 13,806,888 |
| $40,001 - $60,000 | 442 | 22,162,607 | 412 | 20,076,026 | 444 | 22,452,450 |
| $60,001 - $80,000 | 51 | 3,346,226 | 32 | 2,090,586 | 63 | 4,138,777 |
| $80,001 - $100,000 | 2 | 183,994 | - | - | 2 | 166,848 |
| | 1,823 | $43,359,006 | 1,876 | $ 41,246,341 | 1,876 | $ 44,683,611 |

Source: College of the North Atlantic payroll database

## 3.9 College of the North Atlantic

### Monitoring Performance

In 1998, the Department of Education released a document entitled "Post Secondary Indicators '98". This document was an excellent first-time effort to produce and publicize performance information for post-secondary institutions in the Province. As I have indicated in many of my reports to the House of Assembly, neither the House of Assembly, nor Government, nor the taxpayers, can assess whether value for money is attained for public funds provided to the College. The information provided in "Post Secondary Indicators '98" does provide some public accountability of the funds provided to the College. Information provided included:

- the extent of high school students attending the College;
- graduation rates;
- earnings of post-secondary graduates;
- status of graduates with program and teaching quality;
- tuition costs at the College; and
- amounts borrowed by students through the student loan program, with default rates.

Monitoring performance is an important part of the accountability process. It entails monitoring activities of the College in relation to predetermined objectives and standards. The College has structures in place to monitor various aspects of its performance. However, at the present time, the House of Assembly does not receive an annual report on the operations of the College. Given that the College currently prepares performance and other information, I would encourage the College to strengthen its accountability process and prepare an annual report for release to the House of Assembly and the general public.

There is one key area where the College is deficient in monitoring performance and that is in the utilization of resources. The College and the Province have a large investment in both human and physical resources. It has campuses in 16 communities with over 1,000 staff yet there is limited information on the use of these resources. Information on class size and usage, instructor class time, student hours of training provided, costs per student hour, program costs and campus costs are not monitored in relation to objectives or standards.

## 3.9 College of the North Atlantic

In our 1995 review of the College system we reviewed the utilization of classroom space. As a result of that review we determined that classrooms were not being utilized to their full capacity and recommended that the College establish utilization standards for space. We reviewed the classroom utilization for the 2000 winter semester at the Douglas Fowlow Building. This review indicated that the 8 classrooms were being used 53% of the time in a 9-slot(9 hours) school day. This compares to a utilization of 77% for the 1995 winter semester which had 9 classrooms and an 8-slot day.

A useful method for determining and measuring the costs of education at the College is calculating costs per student. Data gathered through these analyses can be useful in determining efficiencies amongst the various campuses, actual costs against estimated costs on a student basis, and cost information for program reviews. Also, cost per student information may be used in calculating tuition fees in relation to the varying costs for each program of study.

An analysis of student enrolments and costs indicated that costs per student vary greatly amongst campus. Variances can occur for a number of reasons, including the type of programs provided at each campus, the location of administrative staff within each of the regions, or the number of part-time vs. full-time students at each campus. In order for the College to properly analyze their costs per student and use it as a useful tool for measuring performance, all supplementary information must be factored into their analysis.

### Recommendations

#### *Financial Position*

*The College should monitor its financial position closely particularly in areas such as contract training, community education, and resale that have not met budget targets in the past. These areas should be allocated on appropriate share of overhead costs.*

*The College should develop a correlation between its funding, number of students and programs and numbers of employees so as to support its budgetary demands.*

## 3.9 College of the North Atlantic

***Capital Assets***

*The College should identify, record and monitor its capital assets.*

***Purchasing***

*The College should comply with the* Public Tender Act. *Expenditures such as travel, professional development, advertising and cellular phones should be monitored and controlled.*

***Payroll***

*The College should develop a salary position and monitoring system to identify each employee position and the status and salaries of these positions.*

*The College should comply with government's personnel policies and procedures.*

***Accountability***

*The College should prepare an annual report for release to the House of Assembly and the general public. This report should include both financial and statistical information compared to established standards.*

### College's Response

***Administrative Expenses/Reorganization***

*The projected savings in administrative expenses upon consolidation of the five former colleges was achieved in 1997-98. However, this could not be sustained. Although there has been no increase in management since consolidation, there has been an increase in the information technology infrastructure and support services. The College has the only learning network in the Province and has had a significant increase in distance education enrolment. This has resulted in increased administrative expenses.*

*A second factor resulting in an increase in administrative expenses is the development of a capacity for applied research. The College has established a Centre for Applied Research and Innovative Technology at its Prince Philip Drive Campus in St. John's and at Corner Brook Campus. This capacity has resulted in this ability of the College to compete for infrastructure funding on a national basis. Recently the College was awarded $650,000 towards the development of a Geospatial Research Facility at Corner Brook Campus.*

*A third factor that has resulted in increased administrative costs is salary increases and redundancy pay which, previously paid by Government, is now the responsibility of the College.*

***Travel***

*The amalgamation of five colleges resulted in a need for significant travel in the first two years. The location of headquarters in Stephenville comes at a cost with respect to travel to St. John's. However, the geographic size of this College, the largest in the country, means a significant amount of travel. The college now makes extensive use of video conferencing and teleconference and this has resulted in a decline in travel costs in the last two years.*

*The College acknowledges the problems in travel claim processing and has taken corrective action to address all of the deficiencies. For example, GST rebate calculations have been corrected and requirements in terms of supporting documentation have been tightened.*

***Fixed Assets***

*For the most part the colleges prior to amalgamation had detailed fixed asset records. The former Cabot College, the largest in the system, had a detailed computerized inventory of assets with an asset control clerk who kept this asset inventory up to date. The other colleges, for the most part also had detailed records. An asset clerk position was established for the provincial college, however because of the incompatibility of the different asset control systems and the concentration on other larger financial issues, such as payroll, the upkeep of the asset records, which requires constant maintenance, received less priority. By the time the College started to put an increased effort into the fixed asset issue, significant work was required to catch up.*

*During the past two years the College has put a significant effort in restoring the records and effective control over its fixed assets. It was understood from the outset that the initial project of establishing systems and procedures and completing initial inventory counts would take 3-4 years. The College anticipates completion by the end of year 3 (March 2001). Additional staff have been hired to ensure that the project is completed within the timeframe identified. Some of the problems in missing inventory has been due to the reduction in security staff both by the College and WST. Also the lack of administrative staff at the campus level has created a problem in tracking inventory that is transferred between campuses. All capital assets purchased since April 1998 are recorded in the fixed assets system.*

## 3.9 College of the North Atlantic

***Vehicles***

*Vehicle operating costs are reviewed on a monthly basis. A vehicle's cost history is reviewed in great detail before a replacement decision is made. However, the review is on a campus basis, with no comparison to vehicles located elsewhere. The College has not yet reviewed its fleet costs as an entity, but will do so within a short period of time.*

*Vehicle logs are now used across the College, further written rules on credit cards have been issued, and gas receipts are now being matched to credit card statements. Until a new tender for fuel was awarded earlier this year, the College had not required that a credit card be attached and restricted to a vehicle. This only came into effect with the new credit cards this year. Therefore, a credit card could be used for multiple vehicles and for rental vehicles. The College now requires each credit card to be assigned to a specific vehicle.*

*There were some minor discrepancies in the list of vehicles maintained for insurance purposes. These have been corrected, and a procedure is now in place to prevent these discrepancies. Most of the small overpayment of insurance premiums has been refunded.*

***Financial Position***

*The College will continue to monitor its financial position in the areas of contract training and community education and will explore ways to allocate an appropriate share of overhead costs to these areas.*

***Accountability***

*The College continues to work on the establishment of performance benchmarks as a part of its accountability to stakeholders. As noted in the Auditor General's report, the College has structures and processes in place to monitor its performance. The Department of Education also monitors the College's performance with respect to graduate outcomes. The College is strengthening its accountability process and will continue to carry out comparative analyses with respect to expenditures across all College campuses. The College prepares an annual report for the Minister of Education which is also available to the general public.*

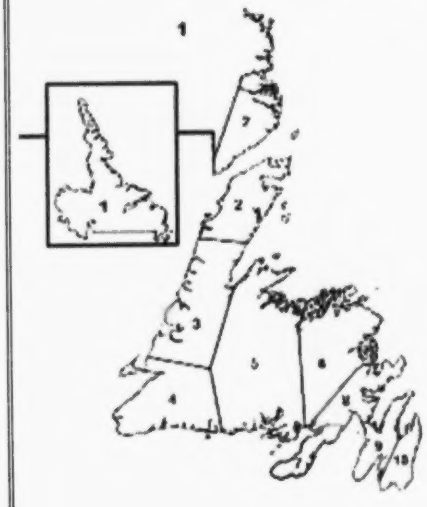
## 3.10 School Boards

### Introduction

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. The 27 school boards continued to exist and administer the schools within their jurisdiction until their dissolution on 31 December 1996. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. Figure 1 provides a profile of the 11 school boards for the 1999-00 school year. As the figure indicates, the number of schools and student enrolment have declined by 23% and 15% respectively, in the past four years.

**Figure 1**

**Department of Education**
**School District Profile**
**1999-00**

| | District | School District | Number of | |
|---|---|---|---|---|
| | | | Schools | Students |
|  | 1 | Labrador | 19 | 5,391 |
| | 2 | Northern Peninsula\Labrador South | 32 | 3,565 |
| | 3 | Corner Brook\Deer Lake\St. Barbe | 31 | 8,314 |
| | 4 | Cormack Trail | 28 | 6,183 |
| | 5 | Baie Verte\Central\Connaigre | 47 | 9,064 |
| | 6 | Lewisporte\Gander | 34 | 8,897 |
| | 7 | Burin Peninsula | 18 | 4,675 |
| | 8 | Vista | 18 | 4,714 |
| | 9 | Avalon West | 42 | 10,966 |
| | 10 | Avalon East | 68 | 31,930 |
| | 11 | Conseil scolaire francophone | 6 | 258 |
| | | **Total** | **343** | **93,957** |

Source: Department of Education's *Education Statistics 1999-00*

## 3.10 School Boards

Our review of school boards in 2000 included an assessment and comparison of the financial position and operating results of each of the 11 boards.

## Observations

### Financial Position

Our review of school board financial statements, as summarized in Figure 4, disclosed that 7 of the 11 school boards had bank indebtedness totalling $4.024 million as at 30 June 2000 to finance board deficits and other expenditures. Seven of the 11 school boards had accumulated deficits of $3.873 million from operations excluding severance pay accruals. These deficits ranged from $75,000 for District #2 to $1.177 million for District #7. The remaining four boards had accumulated surpluses ranging from $37,000 for District #11 to $490,000 for District #5. A summary of these surpluses and deficits is provided in Figure 2.

**Figure 2**

**Department of Education**
**School Boards**
**Accumulated Surplus (Deficit)**
**For the Years Ended 30 June**
**($ 000's)**

| District | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Total | Leave/ Severance | Operating | Total | Leave/ Severance | Operating |
| 1 | $ (5,882) | $ (5,415) | $ (467) | $ (4,970) | $ (4,671) | $ (299) |
| 2 | (4,297) | (4,222) | (75) | (4,063) | (4,023) | (40) |
| 3 | (9,901) | (9,159) | (742) | (9,334) | (9,028) | (306) |
| 4 | (7,178) | (7,273) | 95 | (7,156) | (7,191) | 35 |
| 5 | (10,276) | (10,766) | 490 | (10,153) | (10,788) | 635 |
| 6 | (10,280) | (10,194) | (86) | (10,249) | (10,036) | (213) |
| 7 | (7,043) | (5,866) | (1,177) | (7,196) | (5,717) | (1,479) |
| 8 | (5,468) | (4,763) | (705) | (4,852) | (4,688) | (164) |
| 9 | (11,813) | (11,192) | (621) | (10,189) | (10,700) | 511 |
| 10 | (27,648) | (27,953) | 305 | (22,808) | (26,700) | 3,892 |
| 11 | (161) | (198) | 37 | (82) | (167) | 85 |
| **Total** | **$ (99,947)** | **$ (97,001)** | **$ (2,946)** | **$ (91,052)** | **$ (93,709)** | **$ 2,657** |

Source: School boards' audited financial statements for year ended 30 June 2000.

In summary, the 11 school boards had accumulated deficits totalling $99.947 million for the year ended 30 June 2000. This is comprised of $97.001 million in accrued severance pay and leave, which the Department of Education does not fund, and a net accumulated operating deficit of $2.946 million.

Our review of the financial position of the 11 school boards identified that their accumulated operating positions declined by $5.603 million during 1999-2000. This decrease was mainly the result of District #10, which saw its accumulated operating surplus of $3.892 million decline to a $305,000 accumulated operating surplus. This decline was a result of a net loss of $505,000 for the 2000 fiscal year as compared to a net surplus in 1999 of $780,000 and a transfer of $3.3 million to its capital fund during the year.

### Operating Results

Using 1995-96 as the base year which was the last full year that the former 27 school boards operated, school board provincial revenues have declined by $27.8 million, comprised of $14.1 million in teaching services grants and $13.7 million in other revenues. The total revenue per pupil increased by 11% from $4,796 in 1995-96 to $5,311 in 1999-00.

Using 1995-96 again as the base year which was the last full year that the former 27 school boards operated, school board expenditures declined by $23.5 million, comprised of $15.6 million in instructional, $5.2 million in administration, and $2.7 million in other expenditures. Expenditure on instruction per pupil increased by 13% from $3,841 in 1995-96 to $4,349 in 1999-00. Figure 3 outlines the revenue and expenditures of the school boards for the year immediately before reorganization, the transition year and for the three years after reorganization.

**Figure 3**

**Department of Education**
**School Boards**
**Comparison of Financial Operations**
**For the Years Ended 30 June**
**($ 000's)**

| Financial Item | Former Boards 1995-96 | Transition 1996-97 | Current Boards 1997-98 | Current Boards 1998-99 | Current Boards 1999-00 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Provincial grants | | | | | |
| Teachers | $ 397,795 | $ 376,178 | $ 378,179 | $ 380,314 | $ 383,707 |
| Regular operating | 84,583 | 77,789 | 74,575 | 73,898 | 74,248 |
| Pupil transportation | 30,264 | 29,345 | 27,666 | 26,862 | 26,101 |
| Other Provincial grants | 4,073 | 4,590 | 4,691 | 8,412 | 4,800 |
| Total Provincial grants | 516,715 | 487,902 | 485,111 | 489,486 | 488,856 |
| Federal grants | 4,649 | 4,826 | 5,090 | 4,716 | 4,863 |
| Ancillary services | 1,811 | 1,330 | 985 | 1,032 | 929 |
| Miscellaneous revenue | 6,536 | 5,441 | 5,608 | 4,912 | 4,348 |
| Total revenue | 529,711 | 499,499 | 496,794 | 500,146 | 498,996 |
| **Expenditure** | | | | | |
| Administration | 18,730 | 15,792 | 14,573 | 13,281 | 13,523 |
| Instructional | 424,213 | 399,536 | 414,609 | 405,420 | 408,607 |
| Operations and maintenance | 48,391 | 48,549 | 48,719 | 50,655 | 50,212 |
| Pupil transportation | 29,270 | 30,060 | 28,331 | 28,009 | 26,958 |
| Ancillary services | 490 | 579 | 490 | 425 | 681 |
| Miscellaneous | 615 | 299 | 167 | 1,378 | 924 |
| Debt repayment | 3,132 | 2,058 | 175 | 343 | 396 |
| Total expenditure | 524,841 | 496,873 | 507,064 | 499,511 | 501,301 |
| Excess of revenue over expenditure (Expenditure over revenue) | 4,870 | 2,626 | (10,270) | 635 | (2,305) |
| Net transfer to capital | (3,857) | (4,991) | (3,750) | (4,079) | (4,996) |
| Increase (decrease) in equity | $ 1,013 | $ (2,365) | $ (14,020) | $ (3,444) | $ (7,301) |

Source: 1999-00 audited financial statements.

# 3.10 School Boards

### Compliance with Legislation

During 1999-00, 8 of the 11 boards incurred operating deficits. There was no approval given by the Minister to these 8 boards as required by the *Schools Act, 1997*. As a result, these boards did not comply with the *Schools Act, 1997*.

In addition, the *Schools Act, 1997* requires each school board to submit its annual budget to the Minister at a date determined by the Minister. As of the date of our review in November 2000, the Department had received six of the required 2000-01 budgets from the 11 school boards; none were received prior to the required date of 30 September 2000.

**Figure 4**

## Department of Education
## School Boards
## Summary of Financial Position
## For the Years Ended 30 June
## ($ 000's)

| | Board | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 2000 | 1999 |
| Current Assets | | | | | | | | | | | | | |
| Cash and investments | $ - | $ - | $ - | $ 461 | $ - | $ 75 | $ - | $ - | $ 196 | $ - | $ 4 | $ 736 | $ 5,616 |
| Accounts receivable | 5,062 | 666 | 995 | 560 | 1,339 | 1,546 | 1,813 | 431 | 1,608 | 3,999 | 198 | 18,217 | 12,586 |
| Other assets | 33 | 16 | 10 | 45 | 86 | 111 | 167 | 116 | 131 | 256 | 11 | 982 | 944 |
| Total current assets | 5,095 | 682 | 1,005 | 1,066 | 1,425 | 1,732 | 1,980 | 547 | 1,935 | 4,255 | 213 | 19,935 | 19,146 |
| Capital assets | 41,673 | 37,381 | 56,132 | 72,425 | 72,325 | 74,289 | 39,360 | 39,722 | 79,144 | 109,148 | 251 | 621,850 | 613,412 |
| Total assets | 46,768 | 38,063 | 57,137 | 73,491 | 73,750 | 76,021 | 41,340 | 40,269 | 81,079 | 113,403 | 464 | 641,785 | 632,558 |
| Current Liabilities | | | | | | | | | | | | | |
| Bank indebtedness | 428 | 227 | 952 | - | 249 | - | 908 | 884 | - | 376 | - | 4,024 | 4,338 |
| Accounts payable | 3,285 | 131 | 562 | 326 | 168 | 500 | 1,205 | 68 | 1,215 | 2,069 | 176 | 9,705 | 10,975 |
| Deferred revenue | 627 | 399 | 506 | 592 | 538 | 748 | 225 | 321 | 1,341 | 1,793 | - | 7,090 | 1,204 |
| Current maturities | 157 | 19 | 130 | - | 117 | 94 | 405 | 130 | 65 | 49 | - | 1,166 | 1,224 |
| Total current liabilities | 4,497 | 776 | 2,150 | 918 | 1,072 | 1,342 | 2,743 | 1,403 | 2,621 | 4,287 | 176 | 21,985 | 17,741 |
| Long-term debt | 1,517 | 194 | 1,476 | - | 1,094 | 1,311 | 1,355 | 758 | 96 | 236 | - | 8,037 | 2,708 |
| Severance pay leave | 5,415 | 4,222 | 9,159 | 7,273 | 10,766 | 10,194 | 5,866 | 4,763 | 11,192 | 27,953 | 198 | 97,001 | 93,709 |
| Total liabilities | 11,429 | 5,192 | 12,785 | 8,191 | 12,932 | 12,847 | 9,964 | 6,924 | 13,909 | 32,476 | 374 | 127,023 | 114,158 |
| Equity | | | | | | | | | | | | | |
| Investment | 41,221 | 37,168 | 54,253 | 72,478 | 71,094 | 73,454 | 38,419 | 38,813 | 78,983 | 108,575 | 251 | 614,709 | 609,452 |
| Deficit | (5,882) | (4,297) | (9,901) | (7,178) | (10,276) | (10,280) | (7,043) | (5,468) | (11,813) | (27,648) | (161) | (99,947) | (91,052) |
| Total equity | 35,339 | 32,871 | 44,352 | 65,300 | 60,818 | 63,174 | 31,376 | 33,345 | 67,170 | 80,927 | 90 | 514,762 | 518,400 |
| Total liabilities and equity | $ 46,768 | $ 38,063 | $ 57,137 | $ 73,491 | $ 73,750 | $ 76,021 | $ 41,340 | $ 40,269 | $ 81,079 | $ 113,403 | $ 464 | $ 641,785 | $ 632,558 |

Source: 30 June 2000 audited financial statements.

### Department's Response

*The department is currently working with those boards reporting an operating deficit to identify the significant causes for the shortfall and to identify measures which need to be taken to address the deficits and to avoid or at least minimize, the future recurrence of any significant shortfall. It should be noted that one significant uncontrollable factor which contributed to these deficits was the significant increase in fuel costs for schools and board owned/operated bussing systems.*

## 3.11 Workplace Health, Safety and Compensation Commission

### Introduction

The Workplace Health, Safety and Compensation Commission was established in 1951. The Commission is responsible for administering programs for the payment of benefits to injured workers and dependants, rehabilitation of injured workers, setting rates and collecting employer assessments, and making investments necessary to ensure adequate funding for services. In 1998, the Commission's mandate was expanded to include the Occupational Health and Safety Programs Division of the Department of Environment and Labour. The Commission is governed by a ten member Board appointed by the Lieutenant-Governor in Council and reports to the House of Assembly through the Minister of Environment and Labour.

The Commission is funded through employer assessments and income earned on investments maintained in an investment portfolio. There are approximately 15,000 registered employer accounts representing approximately 210,000 workers covered by Workplace Health, Safety and Compensation programs.

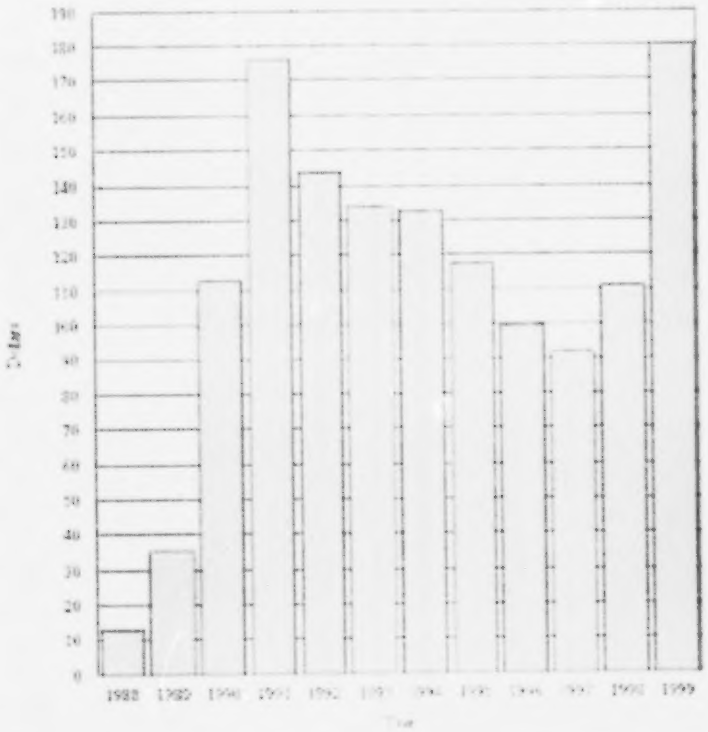
Prior to 1984, the Commission had a disability system in place which compensated injured workers based upon the nature of their disability. In 1984, the Commission implemented a wage loss system which compensated workers on an ongoing basis for their loss of income from a disability.

Initially, the Commission found that, due to a lack of historical claim information, it was not able to reasonably estimate the future costs associated with injuries which had already occurred. However, actuarial studies carried out estimated the future liabilities of the Commission including the portion of the future liabilities for which there was no funding. This is referred to as the "unfunded liability." Figure 1 shows the unfunded liability from 1988 to 1999 as reported in the Commission's audited financial statements.

## 3.11 Workplace Health, Safety and Compensation Commission

**Figure 1**

**Workplace Health, Safety and Compensation Commission**
**Unfunded Liability**
**31 December**
**($ Millions)**



Source: Audited Financial Statements

Commencing in 1992, the Commission calculated the amount to be recovered from assessments each year so as to fully fund current year accidents and amortize the unfunded liability. The amortization of the unfunded liability was calculated over a 20 year period with a target date of 2012 for the Injury Fund to be fully funded.

### Scope and Objective

We completed our review in November of 2000. The objective of our review was to assess the status of the unfunded liability and the Commission's progress towards fully funding the Injury Fund by the target date of 2012.

## 3.11 Workplace Health, Safety and Compensation Commission

### Conclusion

As of 31 December 1999, the unfunded liability was $180 million which approximated the unfunded liability in 1991 when the Commission initially embarked on its strategy to fully fund the Injury Fund by 2012. While the Commission was able to make positive strives between 1991 and 1997 to be fully funded by 2012, there was a significant deterioration in their financial position in 1999.

### Detailed Findings

As shown in Figure 1, the Commission's unfunded liability increased from $13 million in 1988 to $176 million in 1991. From 1991 to 1997 this unfunded liability decreased from $176 million to $92 million but increased again to $180 million by December of 1999. Major changes to the unfunded liability over these years can be summarized as follows:

- In 1989, an actuarial study was carried out to estimate the future liability for injuries that had occurred up to that time. As a result, the unfunded liability increased from $13 million in 1988 to $35 million in 1989.

- In 1990, another actuarial study was performed which resulted in a further adjustment of the unfunded liability to $113 million, an increase of $78 million. Of the $78 million, $51 million resulted from a change in policy whereby indexing was applied to the liability for outstanding claims.

- In 1991, the unfunded liability was $176 million, an increase of $63 million, $47 million of which resulted from an actuarial adjustment. The remaining $16 million increase was due to the inclusion of reserves in the calculation of the unfunded liability. In this same year, the Commission prepared a financial strategy to address the problem of the increasing unfunded liability. The Commission found that revenues received from employer assessments had not kept pace with growing program costs and consequently the unfunded liability continued to grow.

- In 1992, the unfunded liability decreased by $33 million to $143 million. This decrease was caused, for the most part, by changes in legislation which resulted in reduced benefits to injured workers.

- Prior to 1993, the Commission's expenses had exceeded revenues. Commencing in 1993 and continuing through to 1997, reported revenues exceeded expenses. The effect was a reduction of the unfunded liability from $143 million in 1992 to $91.7 million in 1997.

- In 1998 and 1999, as a result of amendments to legislation, benefit structure and administrative procedures, as well as a substantial increase in number of workplace injuries, the unfunded liability increased from $91.7 million in 1997 to $180 million in 1999.

Commencing in 1992, the amount to be recovered from assessments each year was calculated so as to fully fund current year accidents and amortize the unfunded liability. The amortization of the unfunded liability was calculated over a 20 year period with a target date of 2012 for the Injury Fund to be fully funded. Figure 2 summarizes the Commission's objective to fully fund the unfunded liability by 2012 and indicates the Commission's progress towards this objective from 1993 to 1999.

**Figure 2**

**Workplace Health, Safety and Compensation Commission**
**Unfunded Liability - Projected and Actual**
**As of 31 December**
**($Million)**

| Amortization of Unfunded Liability | | | Difference |
|---|---|---|---|
| **Year** | **Projected** | **Actual** | |
| 1993 | 134.1 | 134.1 | - |
| 1994 | 131.0 | 133.0 | (2.0) |
| 1995 | 127.6 | 117.2 | 10.4 |
| 1996 | 123.9 | 99.4 | 24.5 |
| 1997 | 119.9 | 91.7 | 28.2 |
| 1998 | 115.6 | 111.1 | 4.5 |
| 1999 | 110.9 | 180.0 | (69.1) |
| 2000 | 105.9 | | |
| 2001 | 100.5 | | |
| 2002 | 94.6 | | |
| 2003 | 88.2 | | |
| 2004 | 81.3 | | |
| 2005 | 73.8 | | |
| 2006 | 65.7 | | |
| 2007 | 57.0 | | |
| 2008 | 47.6 | | |
| 2009 | 37.4 | | |
| 2010 | 26.4 | | |
| 2011 | 14.5 | | |
| 2012 | – | | |

Source: Workplace Health, Safety and Compensation Commission

## 3.11 Workplace Health, Safety and Compensation Commission

The Commission projected the unfunded liability to be $111 million at 31 December 1999; however, the actual unfunded liability at 31 December 1999 was $180 million, a difference of $69 million. Thus, while the Commission was able to make positive strives between 1991 and 1997 to be fully funded by 2012, there was a significant deterioration in the Commission's financial position in 1999. As of 31 December 1999, the unfunded liability of $180 million approximated the unfunded liability in 1991 when the Commission initially embarked on its strategy to be fully funded by 2012.

## 3.12 Marble Mountain Condominiums

### Introduction

The Marble Mountain condominiums were constructed in 1998 and early 1999 as part of the development of Marble Mountain as a four season resort. On site accommodations were first proposed in 1988 as part of the *Marble Mountain Four Season Resort Master Plan* and were also included in a subsequent update in September 1994 called the *Master Plan Update*. The *Master Plan Update* provided for a number of accommodations including a hotel, townhouses and chalets, a base lodge, a village square, and retail spaces. Summer recreational developments also included plans for a golf course, tennis courts, swimming pool, hiking trails, interpretation sites, and fishing tours.

The implementation of the *Master Plan Update* began in 1994 with the construction of the base lodge and the servicing (e.g. road construction and paving, and a sewage system) of the base area. Other developments since then included ski trail improvements, snow making improvements, expanded chairlifts, night lighting, construction of a parking lot and landscaping. On-site accommodations were first planned for development as early as 1995, once the construction of the base lodge was complete.

In early 1995, expressions of interest were called for the ownership of 44 village suites and 20 townhouses and, as a result, 26 potential buyers were identified through marketing efforts of a real estate agent on the sale of the 44 village suites. Since only 26 potential buyers were identified and there was a lack of private interest in commercial leasing space in the village suites, a redesign of the village suites commenced in the Fall of 1995.

Marble Villa Condominiums, Marble Mountain

## 3.12 Marble Mountain Condominiums

The 44 village suites were replaced with a re-designed 30 unit condominium and it was decided that the 20 townhouses would not be built. Newfoundland and Labrador Housing Corporation tendered for the construction of the condominiums and tenders were finalized in January 1996. Once again, marketing efforts of the real estate agent indicated that there were only 11 prospective buyers identified for the proposed 30 unit condominium. As the pre-sale of the condominium units was not satisfactory, the project was put on hold.

In February 1998, the Marble Mountain Development Corporation took over the management of the condominium project from the Newfoundland and Labrador Housing Corporation. The Marble Mountain Development Corporation called tenders and completed construction of a 31 unit condominium in January 1999 at a cost of $3.1 million.

Since 1988 the Province has provided over $2.8 million in operating grants and $22.5 million in capital grants to Marble Mountain. The Newfoundland and Labrador Housing Corporation has also invested $1.7 million on infrastructure and other costs for Marble Mountain. In addition, the financial statements of Marble Mountain indicate that approximately $10.4 million in grants has been provided directly by Federal departments and agencies. Figure 1 shows the Provincial grants and the operating results of Marble Mountain since 1988, as well as expenditures incurred by Newfoundland and Labrador Housing Corporation and grants received from Federal departments and agencies. This Figure also indicates the operating profit or loss both before and after Provincial Government operating grants.

As shown in Figure 1, in 1999-00 the Province provided Marble Mountain with a capital grant of $3.1 million to retire the long-term debt related to the construction of the 31 condominiums.

In addition to operating grant funding of $2.8 million and capital funding of $24.2 million, the Province has also provided financial assistance to Marble Mountain in the form of guarantees and loans. These are:

- In July 1999, the Province provided a loan guarantee of $300,000 for Marble Mountain's line of credit. In January 2000, the Province increased its loan guarantee from $300,000 to $500,000. This guarantee was subsequently increased to $700,000 in June 2000 and to $1.1 million in September 2000. As at 30 April 2000 the Corporation had a bank overdraft of $397,000.

## 3.12 Marble Mountain Condominiums

- Also during 1999-00, the Department of Development and Rural Renewal provided the Corporation with a $300,000 interest free loan for the purchase of snow-making equipment. This loan is repayable over the next 15 years based upon 20% of available cash flows.

**Figure 1**

**Marble Mountain**
**Capital Grants and Operating Surplus (Deficit)**
**1989-2000**
**($ 000's)**

| Year Ended | Surplus (Deficit) Before Provincial Grants | Provincial Operating Grants | Surplus (Deficit) After Provincial Grants | Capital Grants |
|---|---|---|---|---|
| 31March 1989 | 9 | 55 | 64 | 2,499 |
| 31March 1990 | (16) | 55 | 39 | 1,119 |
| 31March 1991 | (32) | 70 | 38 | 2,400 |
| 31March 1992 | (73) | 55 | (18) | 1,654 |
| 31March 1993 | (136) | 180 | 44 | 873 |
| 30 April 1994 | (138) | 229 | 91 | 1,120 |
| 30 April 1995 | (92) | 281 | 189 | 2,446 |
| 30 April 1996 | (875) | 964 | 89 | 6,750 |
| 30 April 1997 | (259) | 244 | (15) | 17 |
| 30 April 1998 | (114) | 113 | (1) | 294 |
| 30 April 1999 | (619) | 427 | (192) | 248 |
| 30 April 2000 | (640) | 172 | (468) | 3,118 |
| Subtotal | (2,985) | 2,845 | (140) | 22,538 |
| Investment by Newfoundland and Labrador Housing Corporation | | | | 1,680 |
| Federal grants | | | | 10,400 |
| Total | (2,985) | 2,845 | (140) | 34,618 |

Source: Audited financial statements of Marble Mountain and financial reports of Newfoundland and Labrador Housing Corporation.

Note: Some of the Provincial capital grants of $22.5 million were cost shared by the Federal Government under Federal/Provincial cost sharing agreements.

## 3.12 Marble Mountain Condominiums

### Scope and Objectives

We completed our review of the Marble Mountain condominiums in September 2000. Specifically our objectives were to determine:

- whether the Marble Mountain condominium project was adequately assessed and planned;
- the full cost of the development, construction and operation of the condominiums and whether costs were monitored;
- whether the Corporation was in compliance with Provincial legislation, including the *Public Tender Act*, the *Condominium Act*, the *Tourist Establishment Act*, and the Province's Guidelines Governing the Hiring of External Consultants; and
- whether the condominium's assets are being properly safeguarded.

### Conclusions

The Provincial Government has invested directly and through Federal/Provincial cost shared agreements $27.0 million in the Marble Mountain resort area as at 30 April 2000. Included in this $27.0 million are expenditures of $3.1 million for the construction of 31 condominium units which were completed in January 1999. These condominiums have square footage ranging from 311 square feet to 918 square feet. In addition to the $27.0 million invested by the Provincial Government, an additional $10.4 million has been provided by the Federal Government. As of October 2000, none of the 31 units have been sold. Commencing in July 2000, the condominiums were available to be rented on a daily basis.

The 31 condominiums were constructed and marketed in 1998 yet no new marketing surveys were conducted subsequent to 1994. The market survey carried out in 1994 indicated that people preferred renting over purchasing. In 1996 only 11 of the condominiums had potential buyers and in 1998 none of the units were pre-sold when the construction was started. Although the market information indicated that there were very few potential buyers for the condominiums, the 31 condominiums were built in 1998 and marketed initially as sales units only. Twenty-five of the units are furnished or partially furnished while the remaining 6 are unfurnished.

One of the objectives in building the condominiums was to increase the viability of the Marble Mountain area and eventually reduce or eliminate the need for operating and capital grants from the Provincial Government. However, additional financial assistance from the Province has been required to construct the condominiums and maintain them since none of the units have been sold to date and few have been rented. As a result,

## 3.12 Marble Mountain Condominiums

Marble Mountain has not been able to operate without the assistance of Government. For example, before Government assistance the Corporation has shown a deficit in each year since 1993. These annual operating deficits have ranged from $92,000 to $875,000 and do not include depreciation on the Corporation's assets. Furthermore, revenues from operations are also decreasing since skier visits have declined from 79,000 in 1995 to 53,000 in 2000.

## Findings

### Assessment, Planning and Marketing of Condominium

In late 1994 Newfoundland and Labrador Housing Corporation conducted market research relating to on-site accommodations at Marble Mountain. Of 419 people contacted, 140 responded in completing the questionnaire. The results of this survey indicated that 99% of the respondents were interested in base village accommodations provided full amenities were on site. In addition, 25% of respondents wished to own while 75% wished to rent on site accommodations. Respondents preferring ownership were interested in participating in a rental pool. Of the respondents preferring renting, 74% preferred condominiums while only 17% preferred town housing. Many respondents wanted to see how successful the resort became before investing.

An overview of the assessment and development of the condominium identified the following concerns:

- The condominiums were constructed and marketed in 1998, yet no new marketing surveys were conducted subsequent to 1994.

- In 1995 and 1996 proposals to construct on site accommodations had been deferred due to insufficient pre-sales of units. In 1995, 26 of 44 proposed village suites had potential purchasers while in 1996, 11 of 30 condominium units had potential buyers. However, in 1998, no condominium units were pre-sold, yet the construction was started.

- The market survey carried out in 1994 indicated that purchasers preferred renting over purchasing, yet the condominiums were marketed initially as sales units only. In addition, Marble Mountain Development Corporation marketed the condominiums in 1995 and 1996 with a mandatory rental pool which in 1998 was changed to an optional rental pool. Although the mandatory rental pool was changed to an optional rental pool, there were still very few potential buyers identified. Even though this change in policy had little impact on the number of potential buyers, the 31 condominiums were constructed.

## 3.12 Marble Mountain Condominiums

- In 2000, Marble Mountain Development Corporation decided to rent the condominiums. One of the reasons stated for the decision to rent the condominiums was to meet the growing demands for accommodations in the area. Information on occupancy rates in the area over the past five years is included in Figure 2 and indicates that there was no shortage of accommodations.

**Figure 2**

**Marble Mountain**
**Deer Lake/Humber Area/Corner Brook Occupancy Rates**
**1995-1999**

| Year | Total Rooms Available | Total Rooms Sold | Occupancy Rate | *High Month Occupancy Rate |
|---|---|---|---|---|
| 1995 | 185,485 | 95,124 | 51.3% | 62.9% |
| 1996 | 187,366 | 93,414 | 49.9% | 58.8% |
| 1997 | 173,156 | 86,901 | 50.2% | 59.2% |
| 1998 | 148,944 | 73,024 | 49.0% | 57.2% |
| 1999 | 141,501 | 56,563 | 40.0% | 49.2% |

Source: Department of Tourism, Culture and Recreation accommodation database
* - Occupancy rates were highest during February, March and May to August.

### Condominium Costs

#### 1. Capital Cost of Condominiums

The capital costs of the 31 unit condominium were estimated at approximately $2.5 million when construction started in November 1998; however, these costs subsequently increased to $3.1 million as identified in Figure 3. The major reasons for the variance related to furniture expenses of $267,000 and financing charges of $293,000 which were not included in the original budget.

## 3.12 Marble Mountain Condominiums

**Figure 3**

**Marble Mountain**
**Condominium Construction and Related Costs**
**1998-2000**
**($ 000's)**

| | Actual | Budget |
|---|---|---|
| Administration | $ 51 | $ 24 |
| Bank and interest charges | 293 | - |
| Engineering | 90 | 84 |
| Construction | 2,293 | 2,335 |
| Coordinator wages | 45 | 42 |
| Directors' fees | 40 | 35 |
| Interiors | 267 | - |
| Landscaping | 8 | 8 |
| Other | 16 | - |
| Professional fees | 30 | - |
| Total Costs | $ 3,133 | $ 2,528 |

Source: Marble Mountain Development Corporation's and Marble Mountain Management Corporation's 1998-2000 detailed general ledger reports.

In addition to the $3.1 million for construction and related costs, Newfoundland and Labrador Housing Corporation has invested $1.7 million on infrastructure and other costs for the Marble Mountain area including the condominiums. These costs are outlined in Figure 4.

**Figure 4**

**Marble Mountain**
**Investment by Newfoundland and Labrador Housing Corporation**
**31 March 2000**
**($ 000's)**

| Expenditure | Amount |
|---|---|
| Streets, services and sewerage lagoon | $ 1,694 |
| Village Square/Mountain Lodge designs | 802 |
| Advertising, surveys, sundry | 306 |
| Engineering | 300 |
| Capitalized interest | 224 |
| Land | 210 |
| Administration | 186 |
| | **3,722** |
| Less: Recoveries from Marble Mountain and the Town of Steady Brook | 2,042 |
| **Net Investment** | **$ 1,680** |

## 3.12 Marble Mountain Condominiums

A review of capital expenditures at Marble Mountain during the year indicated the following:

- Included in administration expenses was $1,728 less Harmonized Sales Tax of $225 charged directly against the Corporation's bank account by the bank providing financing for the project. This charge related to travel costs for a site visit by two bank officials in June 1999. There was no requirement in the financing agreement for Marble Mountain to reimburse the bank for such expenses.

- Directors' fees included employment expenses for a director who was appointed to manage the condominium project. The Board, at its 22 September 1998 meeting approved the employment effective 1 August 1998. Payroll costs totalled $27,735 up until the completion of the contract in March 1999, based upon salary costs of $700 weekly with a $100 per month vehicle allowance. Corporation staff stated the position was not advertised as it was felt that the incumbent was qualified, knew the project well, and was aware of the Board's objectives. During the term of employment, the Director did not receive any remuneration as a Board member. No agreement or employment contract was signed.

During the construction period in 1998 and up to 25 February 2000, the Corporation marketed the condominiums as sale units only. The condominium units ranged in size from 311 square feet to 918 square feet. Prices for these units originally ranged from $59,800 to $169,900 unfurnished with total sales of individual units expected to generate $3.5 million in revenue. Current prices range from $53,900 to $154,900 furnished with sales of individual units expected to generate $3.2 million in revenue. If the units were sold at their asking price, this $3.2 million would be enough to recover the $3.1 million spent on the construction of the condominiums; however, the revenue would not be sufficient to recover the portion of the $1.7 million invested by the Newfoundland and Labrador Housing Corporation on infrastructure and other costs for the condominiums. Since no sales resulted from these marketing efforts, the Corporation is now offering to rent the condominiums on a daily basis.

### 2. Revenue and Operating Cost of the Condominiums

Although construction of the condominiums was completed in January 1999 and very little revenue has resulted, certain costs such as utilities and marketing continue to be incurred as disclosed in Figure 5.

## 3.12 Marble Mountain Condominiums

**Figure 5**

**Marble Mountain**
**Revenue and Operating Cost of the Condominiums**
**For the year ended 30 April**

| | 1999 | 2000 | 2001(YTD) | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Provincial grants | $ 40,860 | $ - | $ - | $ 40,860 |
| Rentals | - | - | 17,099 | 17,099 |
| Total Revenues | 40,860 | - | 17,099 | 57,959 |
| **Expenses** | | | | |
| Administration | - | 15 | 9,119 | 9,134 |
| Utilities | 5,446 | 16,777 | 8,011 | 30,234 |
| Insurance | 5,138 | 4,344 | 7,239 | 16,721 |
| 1999 Winter Games costs | 40,608 | - | - | 40,608 |
| Marketing | - | 10,484 | 1,183 | 11,667 |
| Miscellaneous | 1,543 | 562 | - | 2,105 |
| Housekeeping, maintenance and security | 350 | - | 24,637 | 24,987 |
| Total Expenses | 53,085 | 32,182 | 50,189 | 135,456 |
| **Net Income (loss)** | **$ (12,225)** | **$ (32,182)** | **$ (33,090)** | **$ (77,497)** |

Source: Audited financial statements for 1999 and 2000; unaudited interim financial statements for 2001

As this Figure shows, Marble Mountain has lost money operating these condominiums.

A review of operational results over the past three fiscal years identified the following:

- $40,608 in expenditures during 1999 were a result of the condominiums being used to house dignitaries during the 1999 Canada Winter Games. Costs included housekeeping wages, utilities, supplies, and toiletries for guest accommodations. These expenditures were reimbursed by the Department of Tourism, Culture and Recreation in June 1999.

- In July 2000, the Corporation began renting the condominium units and is expecting to generate $221,000 in revenue in the first year of operation while operating costs, excluding depreciation and financing charges, are expected to be $227,000. Although it is too early to determine if these targets will be met, revenue ($5,469) for July and August was below expectations ($7,134).

- A review of 45 daily rentals identified only 4 that were charged out in accordance with the rate schedule. For example, in one case the rental rate was $165 per night but $64 was charged. In another case, the rental rate was $159 per night but $99 charged.

- Certain costs such as utilities and marketing must be incurred whether or not any of the condominiums are rented. In addition, since rental of the condominiums began, the Corporation has contracted out security, maintenance and housekeeping services. Maintenance and housekeeping services are retained at a minimum monthly charge of approximately of $4,168 and are paid regardless of the level of service provided. For the 3 month period ending 30 September 2000, security, maintenance and housekeeping totalled $21,545. Only $17,100 in rental revenue was generated for the same period.

## Legislative Compliance

### 1. The Public Tender Act

The *Public Tender Act* requires any Crown agency to invite tenders where the cost of goods and services is over $10,000 or public work is over $20,000. The *Act* provides exceptions where tenders may not be required to be invited and in these cases the Minister of Works, Services and Transportation must be informed, who in turn must table a report in the House of Assembly. The *Act* also states that where a purchase is not required to be tendered because the goods or service is less than $10,000 ($20,000 for public work), the Corporation must obtain quotations from at least three legitimate suppliers, or establish for the circumstances a fair and reasonable price for the goods or services or public work through direct quotation substantiated by reference to catalogues, price lists or in a manner which the Corporation considers advisable.

## 3.12 Marble Mountain Condominiums

We reviewed the 4 purchases over $10,000 which were required to be publicly tendered, and 6 purchases which required three quotes. Our review indicated that 2 of the 4 purchases requiring a public tender were not tendered as required by the Act. Furthermore, 3 of the 6 purchases requiring quotes did not comply with the Act. Details of the purchases which did not comply with the Act are as follows:

- In November 1998, the Corporation publicly tendered for the supply of furnishings for the lobby area and two model units plus the cost of supplying furnishings for unit holders. On 20 November 1998, an amendment was sent to all registered bidders significantly changing the nature of the tender. Instead of requiring a fixed price for the furnishings, a fixed fee plus cost was requested. The fixed fee would cover the cost of sourcing and pricing and installing the furnishings. Furnishings would be sold to the unit holders at wholesale cost. The closing date for the tender was changed to 25 November 1998, five days after the amendment. Only one company submitted a bid and was awarded the tender at $162,287. Due to the significant changes in the original tender, the Corporation should have re-tendered.

- In February 1999, furniture totalling $69,500 was purchased for 23 condominium units without being publicly tendered.

- Three purchases under $10,000 each were made without obtaining quotes. Officials at the Corporation indicated that the purchases were based upon previous dealings with suppliers.

Furnished two bedroom corner unit

## 2. The Tourist Establishments Act

Section 9.(1) of the *Tourist Establishment Regulations* under the *Tourist Establishments Act* states "*each operator shall maintain...in a form to be approved by the minister*

*(a) a permanently bound register; or*

*(b) a consecutively numbered card register of persons accommodated in the establishment.*"

The Corporation maintains a card reservation system but these cards are not numbered. Also our review of unit rentals identified seven instances where cards were not completed.

Section 9.(3) states "*the operator shall enter in the register...*

*(a) the name or number of the rental unit occupied by each person accommodated...*

*(b) the date of arrival and departure of each person so accommodated.*"

Our review of the reservation cards identified four reservation cards which did not detail the unit number or the arrival/departure dates.

### Corporation's Response

***Newfoundland and Labrador Housing Corporation investment of $1.7 million***

*It should be noted that this investment represents costs incurred with respect to the entire land assembly. More specifically, it is the cost of infrastructure and other related expenditures to develop the approximately 44 acres of residential and commercial land in the Marble Mountain base area. This land, which is presently owned by Newfoundland and Labrador Housing Corporation, is being held for future development and sale. It should also be mentioned that the commercial value of this land significantly exceeds the $1.7 million cost of the infrastructure investment.*

***Capital Grants and Operating Surplus (Deficit)***

*The commentary and Figure 1 make reference to contributions from the Province by way of capital grants totalling $22.5 million and the Federal government of $10 million. I am concerned that the manner in which this information is presented misrepresents the Federal contributions and support in the development. Although reference to cost sharing agreements was made in the footnote, I feel disclosure of the actual* *breakdown, or at least a reference to the fact that most of these agreements were cost shared on a 70/30 basis, would be a more accurate and meaningful representation of the historical funding sources.*

***Lack of pre-sales***

*The previous cancellations of the condominium project and the general uncertainty had caused the demand to slip, such that evaluation of the project on strictly a stand alone commercial basis would not yield a fair assessment. The decision to proceed was made in light of the Corporation's objectives and after consideration of all developmental and financial issues.*

***Lack of buyers***

*The marketing of units for sale on an individual basis was suspended when interest was expressed from groups desiring to purchase the property as a whole. We are continuing to receive, review and evaluate proposals for the sale of the property.*

***Demand for accommodations***

*Your report indicates that... "One of the reasons stated for the decision to rent the condominiums was to meet the growing demands for accommodations in this area". I do not believe this quote to be accurate. There is a growing demand for base accommodations and there has been pressure on existing accommodations during recent events and celebrations, such as the Canada Games, Cabot and Viking Celebrations. The statistics quoted also do not reflect the peaks and are not necessarily representative of high period shortages. If this remark is indeed attributable to anyone involved with the facility, I believe it to be taken out of context.*

***Condominium costs***

- *Budgeting/Finance charges*

  *While the financing charges were not outlined in the budget presented to your officials, they were anticipated and provided for in the financing package.*

- *$1.7 million investment by NLHC*

  *As indicated earlier in our response, this investment does not solely relate to the condominium project. This investment relates to the entire land assembly. The thirty-one unit complex occupies only a minor portion of this overall land development.*

- *Capital expenditures/Site visit by bank officials*

  *It is common practice for financial institutions to charge the client for costs related to their exercising due diligence in maintaining a credit facility.*

- *Directors fees/Employment expenses*

  *The appointment of a director to manage the project was done to increase control by the Board and to protect the interest of the Corporation. The position was temporary and the desired results would not have been achieved through a public competition.*

- *Revenue and operating costs of the condominium*

  *Revenue targets were down due to difficulties in startup and a corresponding decision not to market aggressively during the startup period. This should be overcome as we enter the high season. Expenses are somewhat fixed and will be recovered as occupancy levels rise.*

***Legislative Compliance***

- *Procurement of furniture*

  *There was difficulty in establishing a competitive market for the tender as all suppliers could not meet identical specifications due to the nature of the product and different manufacturers. The tender was changed on the advice of our consultants and after discussions with the registered bidders.*

  *The furniture acquired in February 1999 was to furnish the units required for the Canada Winter Games. Most, if not all, of the items were acquired under the tendered pricing and standing order established earlier. Due to the deadline and time frame required to meet the arrival of dignitaries for the Games, it was not possible to re-tender.*

- *Purchases under $10,000 made without obtaining quotes*

  *The purchases identified related to minor, daily operating items which are low dollar value, high frequency items. In the instances cited, two of the purchases were for light bulbs. Rather than obtaining quotes on all purchases, the Corporation's practice is to check pricing on a periodic basis and designate preferred suppliers.*

## 3.12 Marble Mountain Condominiums

***Tourism Establishment Act***

*The Corporation has since corrected the deficiencies noted and will ensure compliance in the future.*

## 3.13 Loan Guarantees - Department of Finance

### Introduction

Government uses loan guarantees to achieve its policy objectives. When Government provides a loan guarantee on behalf of a company, it is guaranteeing or promising that it will repay a loan on behalf of the company if that company cannot repay the loan. There are no payments made by Government when the guarantee is issued. Payments will only be made if the company defaults on its loan payments and the financial institution requires Government to honour its guarantee.

The Province has guaranteed the repayment of principal and interest of debentures and bank loans on behalf of municipalities, companies, individuals and Crown corporations. These guarantees may be used to support regional development or to provide economic assistance to companies or individuals. Corporate and municipal guarantees are ratified each year by an amendment to the *Loan and Guarantee Act, 1957* or the *Local Authority Guarantee Act, 1957.*

Figure 1 outlines the total amount of loan guarantee limits and the related present liability for each of the last five years. The loan **"Guarantee Limit"** represents the maximum exposure under the Province's guarantee, with the **"Present Liability"** representing the actual outstanding amount relating to the guaranteed debt.

**Figure 1**

**Loan Guarantees**
**Years Ended 31 March**
**$ Billions**

| Year | Guarantee Limit | Present Liability |
|---|---:|---:|
| 1996 | 1.70 | 1.68 |
| 1997 | 1.74 | 1.72 |
| 1998 | 1.71 | 1.70 |
| 1999 | 1.56 | 1.56 |
| 2000 | 1.68 | 1.62 |

Source: Public Accounts of the Province

As can be seen from Figure 1, at 31 March 2000 loan guarantees were in place with limits totaling $1.68 billion, the present liability of which was $1.62 billion. Figure 2 provides information on these guarantees.

## 3.13 Loan Guarantees - Department of Finance

**Figure 2**

**Loan Guarantees**
**31 March 2000**
**$ Millions**

| Form of Guarantee | | Limit of Guarantee | Present Liability |
|---|---|---|---|
| Guaranteed Bank Loans | | | |
| | Corporate - Crown Corporation | $ 113.45 | $ 101.49 |
| | Corporate - Private Sector | 9.23 | 3.16 |
| | Municipalities | 1.94 | 0.80 |
| | Fisheries | 24.14 | 23.04 |
| Guaranteed Debentures | | | |
| | Municipalities | 1.60 | 1.60 |
| | Crown Corporations | 1,487.22 | 1,487.22 |
| Other Guarantees (i.e. performance) | | 42.99 | 7.00 |
| **Total** | | $ 1,680.57 | $ 1,624.31 |

Source: Public Accounts of the Province

Guaranteed bank loans relate to municipal, fisheries and corporate loans. Municipal loan guarantees represent interim financing for municipal capital projects. Fisheries loan guarantees represent interim financing provided through bank loans during a vessel's construction period and term loans once construction has been completed. Corporate loan guarantees are provided by Government to qualifying companies.

Guaranteed debentures relate to debentures issued to the Municipal Development and Loan Board and the Canada Mortgage and Housing Corporation on behalf of municipalities as well as debentures of several Crown corporations most notably the Newfoundland and Labrador Hydro Electric Corporation and the Newfoundland Municipal Financing Corporation.

Other guarantees relate to performance guarantees the Province had in place with respect to three shipbuilding/repairs contracts Newfoundland Ocean Enterprises Limited had entered into at the Marystown shipyard facilities. The contracts were assumed by Friede Goldman Newfoundland Limited at the time the assets of Newfoundland Ocean Enterprises Limited were purchased; however, the Province's performance guarantees were not released. The company did indemnify the Province with regard to these guarantees through third party performance bonding. As at 31 March 2000, Government's exposure with respect to two of the contracts had effectively ended due to the associated work being completed in accordance with those contracts. Government's exposure with respect to the third contract has significantly decreased given that all work has been completed. Government's exposure is now limited to any construction issues which may arise in the future.

For purposes of this report, we have focused on private sector corporate loan guarantees which total $9.23 million as of 31 March 2000.

The amount of the Province's loan guarantees are disclosed as contingent liabilities in the Province's Public Accounts, with a detailed listing presented in a Schedule. Loan guarantees do not directly affect the Province's cash position until a payment is required under the guarantee. At that time the payment is recorded as an expenditure of the Province. Payments totaling $13 million were made during the year ended 31 March 2000.

A valuation allowance is recorded in the Public Accounts each year representing the Province's estimate of payouts which may be required relating to guaranteed debt. The allowance as at 31 March 2000 was $1.6 million.

Figure 3 outlines the payment amounts and allowance in each of the past five years. In addition to the payout of $7.8 million for the year ended 31 March 1999, the Province assumed as its own debt, $81.1 million in debt owed by Newfoundland Ocean Enterprises Limited ($70.9 million) and Newfoundland Farm Products Corporation ($10.2 million). Both of these amounts were assumed as the Province's own debt as they were guaranteed by the Province.

**Figure 3**

**Loan Guarantee Payments and Allowance**
**Years Ended 31 March**
**$ Millions**

| Year | Payment under Guarantee | Valuation Allowance |
|---|---|---|
| 1996 | 11.0 | - |
| 1997 | 0.8 | 66.8 |
| 1998 | 0.2 | 87.0 |
| 1999 | 7.8 | 14.4 |
| 2000 | 13.0 | 1.6 |

Source: Public Accounts of the Province

Also, guarantees have been provided to private companies by the Enterprise Newfoundland and Labrador Corporation.

## Scope and Objectives

We commenced our review of loan guarantees in January 2000. Our review included discussions with departmental officials, and a review of relevant authorities, policies and procedures, agreements, reports and other departmental information. As well, specific loan guarantees were reviewed with primary emphasis on Corporate guarantees.

The objectives of our audit were to examine the Province's loan guarantees to assess the nature and objectives of the loan guarantee program, whether guidelines and related policies and procedures had been developed and were consistent with the nature and objectives of the program, whether program guidelines and related policies and procedures that had been developed were being complied with, and whether monitoring and reporting mechanisms had been established to evaluate and report on success towards achieving program objectives.

## 3.13 Loan Guarantees - Department of Finance

### Conclusions

For the period 1996 to 2000, Government's loan guarantee program has resulted in the payout or assumption of debt in excess of approximately $114 million, of which $95 million related to Crown corporations and $19 million related to private companies. Of the $114 million, $4.9 million was recovered from four Crown corporations relating to the sale of four middle distance fishing vessels. Government's involvement with these vessels resulted in costs totalling $35.6 million in guarantee payouts and other related costs. A total of $12,700 was also recovered through realization of security Government had in place for a $73,000 payout on a loan guarantee.

Figure 4 provides a summary of the activity in the Department of Finance's corporate loan guarantee portfolio for each of the last five years.

**Figure 4**

**Department of Finance**
**Summary of Activity - Corporate Loan Guarantee Portfolio**
**Years Ended 31 March**
**$ Millions**

| Year | Limit of Guarantees | Present Liability | Number of Guarantees |
|---|---|---|---|
| 1996 | 69.55 | 65.25 | 18 |
| 1997 | 86.07 | 81.67 | 17 |
| 1998 | 97.26 | 91.39 | 15 |
| 1999 | 21.48 | 17.97 | 12 |
| 2000 | 122.68 | 104.65 | 14 |

Source: Public Accounts of the Province

The most significant changes in Figure 4 occurred between 1998 and 1999 and between 1999 and 2000. The decrease in the total amount guaranteed between 1998 and 1999 is primarily due to the assumption of $70.9 million in debt resulting from the divestiture of Newfoundland Ocean Enterprises Limited and $10.2 million in debt resulting from the divestiture of Newfoundland Farm Products Corporation. The increase in the total amount guaranteed between 1999 and 2000 is primarily due to the guarantee of $110 million in debt relating to the Health Care Corporation of St. John's relating to the Corporation's site relocation and renovation project.

As of 31 March 1999 there were loan guarantees to 12 private companies totalling $21.5 million. We reviewed 6 of the12 loan guarantees which accounted for $18.5 million. Our review of these guarantees extended to May 2000.

In 1990, Cabinet established criteria which companies are required to meet before the Province will provide loan guarantee assistance. The Department of Finance developed policies to address these criteria. However, we found that some of the policies are not specific enough. For example the criteria established by Cabinet requires that the company satisfactorily demonstrate that it can be viable over the long term. However, there is nothing in the policies to tell staff how to determine viability. Cabinet also provided that criteria could be waived in cases where there would be significant community impact. Again, there is no guidance in the policies to tell staff what would constitute significant community impact.

Our review also indicated that the criteria established by Cabinet is not always being complied with. For example:

- Three of the six loan guarantees reviewed did not meet the criteria approved by Cabinet. The three companies were not established businesses as required by Cabinet criteria and one of the three companies used its loan guarantee to secure term financing which was not permitted by Cabinet. Of these three guarantees, two resulted in payouts totalling $18 million.

- While Cabinet directed that guarantees normally would not exceed a one year duration, most loan guarantees are being issued without expiry dates. Of the private companies examined which received loan guarantees, the average length of time the company had been in receipt of a loan guarantee was 6.3 years. Two guarantees had been in place for in excess of 10 years with the longest of these two in effect for 13 years. One other guarantee has been outstanding approximately 8 years.

## 3.13 Loan Guarantees - Department of Finance

Monitoring of loan guarantees requires improvement. Some of the significant issues identified include:

- Although guarantee agreements require audited financial statements to be submitted, our review of files maintained by the Department indicated that the files did not always contain recent audited financial statements.

- There is no formal mechanism in place to ensure that the financial position of companies receiving loan guarantees is being reviewed on a regular and current basis. The Department's reviews are generally completed when a company's year end financial statements are received. Since this information is not received in a timely manner, significant periods of time may pass between reviews.

- Loan guarantee recipients did not always have appropriate insurance in place as required by the guarantee agreement. There is also no system in place to remind Department of Finance staff when a policy is expiring and thus prompt them to request evidence that insurance coverage is in place.

Corporate and municipal loan guarantees are approved by Cabinet and tabled in the House of Assembly; however, fisheries loan guarantees are approved by the Fisheries Loan Board and are not approved by Cabinet or tabled in the House of Assembly. As at 31 March 2000, fisheries guaranteed bank loans totalled $24.1 million.

Cabinet criteria specifies that security must be available to government on a book value basis to the value of the loan guarantee either through the company or personal guarantees of the principals. Our review indicated that assets taken as security are usually insufficient to cover the loan guarantee and are often subordinated to other creditors. In addition, there is usually no action to realize on security held.

Some recipients of loan guarantees have also received loans and/or equity financing from the Department of Development and Rural Renewal. This increases the Province's total exposure in cases of default. There is no guidance as to when a company would receive a guarantee from the Department of Finance versus the Department of Development and Rural Renewal.

## 3.13 Loan Guarantees - Department of Finance

### Findings and Recommendations

While the Department of Finance is involved in the administration of municipal and fisheries loan guarantees, it is primarily involved with the corporate loan guarantee portfolio.

### 1. Guidelines

In 1990, Cabinet provided direction for the process to be used by the Department of Finance with respect to the corporate loan guarantees portfolio. Under this authority, the Minister of Finance was authorized to set out in a Policy and Procedures Manual new guidelines for the portfolio. The guidelines were to include that proposals for guarantees could be accepted if they meet specified criteria, unless in the Minister's opinion extenuating circumstances exist.

The Department developed a Loan and Guarantee Program (Corporate) Procedures Manual which provides guidelines related to the criteria identified in the Cabinet direction. However, we found that the guidelines are not specific enough. For example:

- The guidelines require that the company satisfactorily demonstrate that it can be viable over the long term. However, there is nothing to tell staff how to determine viability.

- The guidelines provide for other criteria to be waived in cases where there would be significant community impact. Again, there is no guidance provided to staff as to what would constitute significant community impact.

- The guidelines provide direction in cases where a loan guarantee is about to expire; however, it does not provide any guidance on what steps are to be taken when a company applies for an increase in their loan guarantee.

- Neither the guidelines nor the guarantee agreements specify the process to be used in the assessment of the potential for reducing individual outstanding loan guarantees. This process may require negotiation with the banks.

### 2. Compliance with Guidelines

As of 31 March 1999, there were 12 corporate loan guarantees in place totalling $21.5 million. We selected 6 of those loan guarantees totalling $18.5 million for further review.

## 3.13 Loan Guarantees - Department of Finance

Our review of corporate loan guarantees in place at the Department of Finance indicated the following:

- Government's policy, as stated above, provides that guarantees normally would not exceed a one year duration. Loan guarantees for several private businesses were in place for significant periods of time. The average age of loan guarantees examined which were provided to private organizations was 6.3 years with the longest outstanding guarantee being 13 years.

- The criteria established by Cabinet for approval of loan guarantees is not being consistently adhered to in the application approval process. In three cases companies were provided loan guarantees although they did not meet all of the three main criteria. For example:

    - Two of the companies were not established businesses as required by Cabinet criteria; and

    - The third company was not an established business as required by Cabinet criteria and used its loan guarantee to secure term financing which was not permitted by Cabinet.

- Cabinet directed that a monitoring committee be established to closely monitor loan guarantees. The Committee was to consist of representatives from the Departments of Finance, Justice, Fisheries and Aquaculture, and Development and Rural Renewal.

  This Monitoring Committee was established; however, it has not met since November 1992. Monitoring procedures completed are conducted by the Debt Management Division of the Department of Finance. However, the procedures performed by the Debt Management Division are limited to desk reviews if financial information is received. In cases where desk reviews are performed, documentation is limited. On-site visits to the companies' premises are minimal.

- Obtaining adequate security for loan guarantees is important in protecting the Province's investment in cases where a default occurs. The direction provided by Cabinet specifies that security must be available to government on a book value basis to the value of the loan guarantee either through the company or personal guarantees of the principals.

However, we found the following:

- assets taken as security are usually insufficient to cover the loan guarantee;
- assets taken as security are often subordinated to other creditors;
- the Province usually does not take any action to realize on its security; and
- the Province does not ensure that insurance on assets pledged as security is renewed.

In 5 of the 6 cases examined the Province released or subordinated loan guarantee security to other creditors.

There was no evidence of any market valuation performed on assets pledged as security. Such an evaluation would enable Government to determine the market value of assets and consequently which assets should be used as security for the loan guarantee. It would also assist the Province in determining the extent to which it should obtain personal guarantees from the principals of the company.

Furthermore the Department does not conduct a credit check or obtain a statement of personal net worth from principals of the company prior to approving a loan guarantee. This would provide additional information on the collectibility of the personal guarantee should the company default on the loan guarantee. It would also allow the Department to determine the ability of the company to obtain equity financing from its principals and whether it is necessary for the company to obtain a loan guarantee from the Province.

### 3. Monitoring and Reporting

- Government's policy specifies that a status report must be maintained for the purpose of providing basic information on companies provided with loan guarantees, including a history of guarantees in terms of authorities, agreement dates and expiry dates. The report is also intended to keep track of current activity on loan guarantees. While Department staff do maintain such a report, it was not complete. For example, in five cases the report did not contain a record of Priority Agreements which subordinated the Province's security in favour of other creditors. The maintenance of complete and up to date information on companies provided with loan guarantees would assist in the monitoring and administration of the Province's loan guarantee portfolio.

- The financial position of companies with outstanding loan guarantees is not being regularly reviewed because the audited financial statements are not always being provided by companies as required by the loan guarantee agreements. In instances where audited financial statements are being provided, they are usually late and therefore not current. As a result, it is difficult for the Department to assess whether restrictions contained in the guarantee agreements were being complied with.

- Loan guarantee files contain little information on what monitoring procedures were performed although there is a checklist in the Departmental Manual for this purpose. For example, while there were some hand written notes and comments in the margins of the information received, we do not believe that this is sufficient for monitoring and assessment purposes.

- The Department requires that companies with loan guarantees maintain insurance to cover any assets pledged as security and that the Department be named as a beneficiary in case any insurance claim is made. In one case examined no evidence could be found in the Department's files confirming that the loan guarantee recipient had appropriate insurance in place. There is also no system in place to remind Department of Finance staff when a policy is expiring and thus prompt them to request evidence that insurance coverage is in place. Confirmation that appropriate insurance is in place is generally only requested from the company when the Department performs its annual review which is not conducted on a regular basis.

  Failure to ensure that insurance coverage is in place exposes the Province to significant risk in cases where the loan guarantee recipient suffers a major uninsured loss. If such a loss occurs, it is unlikely that the Province would have sufficient security in place to honour its loan guarantee.

## 3.13 Loan Guarantees - Department of Finance

- The Department does not produce an annual or other report that addresses the loan guarantee program. Aside from tabling information in the House of Assembly on corporate and municipal loan guarantees approved during the year, for ratification by an amendment to the *Loan and Guarantee Act, 1957* or the *Local Authority Guarantee Act, 1957* respectively, the only report that the Department makes is an annual report required by the *Financial Administration Act* as to which, if any, loan guarantees have defaulted or have been assumed during the previous year. This report does not provide information in such areas as the actual number of jobs saved or created or what economic benefits have resulted from the loan guarantee program. As well, the information tabled in the House of Assembly as amendments to the *Loan and Guarantee Act, 1957* and the *Local Authority Guarantee Act, 1957,* does not include details on all loan guarantees since information on fisheries guarantees is not tabled. These guarantees amounted to approximately $24.1 million as at 31 March 2000.

### 4. Other Issues

- Four recipients of loan guarantees have also received loans and/or equity financing from the Department of Development and Rural Renewal. The provision of multiple forms of assistance increases the Province's total exposure in cases of default.

  Related to this matter, there did not appear to be any clear guidance as to when a company would receive a guarantee from the Department of Finance or when they would receive a guarantee from the Department of Development and Rural Renewal. Companies receiving assistance from these departments were similar in terms of the nature of the requests and the characteristics of the companies' proposals. Both departments or their agencies have been providing loan guarantees for a significant period of time. We noted one case where it appears the loan guarantee was originally going to be provided by the Department of Finance but was instead provided by the Department of Development and Rural Renewal. There was no indication as to the rationale for the change in the source of the guarantee.

  The provision of multiple forms of assistance from different departments or agencies to the same company also results in a duplication of effort in analyzing loan guarantee applications, monitoring approved guarantees, as well as increasing the general administration effort.

## 3.13 Loan Guarantees - Department of Finance

Of those loan guarantees which were in default, there was one case where a company provided with a loan guarantee by the Department of Finance for $6.7 million, was also provided with a $3.1 million loan by the Department of Development and Rural Renewal. In this case, a loan guarantee payout was made by the Department of Finance totalling $6.5 million and the Department of Development and Rural Renewal had determined that it will not be able to collect the outstanding loan balance of $2.8 million.

- The loan guarantee files maintained by the Department of Finance on each company were not always complete. In one case where a loan guarantee had been provided for $1.0 million there were indications on file that a priority agreement had been put in place subordinating the Province's security to other creditors. No copy of the fully executed agreement could be found in the files maintained by the Department. When questioned if the priority agreement was actually executed, Department staff had to contact the law firm representing the company to obtain a copy of the agreement in order to determine if it had been executed.

  The files of loan guarantee applicants and recipients do not adequately document the decision making process. As a result it is often difficult or impossible to determine why the decision to approve a loan guarantee was made. We were advised that this information may be contained in related submissions to Cabinet, to which this Office is not permitted access.

  Analysis of information provided by applicants requesting loan guarantees, to determine if the information is reasonable and achievable, is not on file. For example, there was no evidence on file to indicate whether a company was determined to be viable or whether there was adequate security available in the case of default. Of those entities that submitted pro forma financial statements and cash flow projections, the projections were generally not met.

- A review of applications rejected by the Department was performed. During this review it was determined that the Department was justified in rejecting these applications as they did not meet the required criteria as set out in the direction from Cabinet.

In reviewing these rejections, we noted that in advising the applicants of the rejections, the Department has indicated in part that the Province has effectively terminated the provision of loan guarantees. This statement is not consistent with the results of our review, which disclosed that the Province has in fact continued to issue new corporate and fisheries guarantees.

**Recommendations**

*The Department should:*

- *comply with Cabinet direction and the Loan and Guarantee Program (Corporate) Procedures manual;*
- *update the Loan and Guarantee Program (Corporate) Procedures manual as required to reflect current policies and procedures;*
- *ensure that a mechanism is in place to allow for the orderly reduction of outstanding loan guarantees;*
- *ensure that there is proper security for loan guarantees;*
- *take prompt action to enforce it's security and personal guarantees when a default on a loan guarantee occurs;*
- *prepare a more detailed annual report indicating the performance of the loan guarantee program; and*
- *establish a system that will highlight when a major milestone is reached so that appropriate action can be taken.*

**Department's Response**

***Overview***

*At March 31, 2000, the Province had ten corporate loan guarantees outstanding to private sector companies aggregating $9.23 million, of which the present liability was just $3.2 million. The number and amounts outstanding with respect to private sector guarantees has declined since the early 1990's, as Government has endeavored to move away from this type of financial assistance, and also as a result of strong economic growth, particularly in the resource based sectors. In comparison, at March 31, 1989 there were 34 corporate loan guarantees outstanding, and Government's liability was $64.7 million.*

## 3.13 Loan Guarantees - Department of Finance

*To provide direction with respect to private sector corporate loan guarantees, in 1990 Cabinet authorized the Minister of Finance to set out in a Policy and Procedures Manual new guidelines for commercial loan guarantees which would give guidance in determining the eligibility of applicants and establish criteria for evaluation and the development of recommendations for Cabinet decisions. It should be noted that this Cabinet direction provided a basic framework for considering loan guarantee requests, which could be varied or waived if, in the opinion of the Minister of Finance, extenuating circumstances existed, including those of a social nature, i.e. significant community impact. In essence, each subsequent request for a loan guarantee could, if approved, result in modifications to the previously approved guidelines.*

*All loan guarantees are reported on annually in the Financial Statements of the Province and the necessary legislative authority is received, where required, on a regular basis, pursuant to ratifications to The Loan and Guarantee Act, 1957 and The Local Authority Guarantee Act, 1957.*

*With this background in mind, we would like to offer the following responses with respect to the specific recommendations contained in your report.*

***Recommendation***

*The Department should comply with Cabinet direction and the Loan and Guarantee (Corporate) Procedures Manual.*

***Response***

*It is our view that we are in compliance with Cabinet direction, as well as the Loan and Guarantee Program (Corporate) Procedures Manual. Cabinet direction in 1990 stated that proposals for guarantees must meet the given criteria... "unless in the Minister's opinion extenuating circumstances exist". Of the six guarantees examined, two were approved before the guidelines were put in place by Cabinet, while three others were approved based upon extenuating circumstances. The following detail is provided with respect to those guarantees approved, where extenuating circumstances existed.*

## 3.13 Loan Guarantees - Department of Finance

***Company A (and its subsidiaries)***

*In 1997, Government privatized the chicken processing operations of Newfoundland Farm Products Corporation by turning it over to 20 chicken farmers located throughout the Province, who had become shareholders in the new company. In order to enable this new venture to access necessary capital and operating credit, Government provided loan guarantee support to achieve this public policy objective. While the company was new, it did take over an established operation.*

***Company B***

*Government has been encouraging the establishment and development of an aquaculture industry in the Province, especially since the declaration of the Northern Cod moratorium. Due to its natural advantages, the Bay d'Espoir area has been key to this goal, particularly with respect to finfish development. The company (located in Bay d'Espoir) is by far the largest player in this industry. Due to ongoing operating problems, a lack of working capital and a shortage of funding for capital projects, the company's financial position had become critical. In 1997, Government recognized that closure of this operation would have a major impact on the aquaculture industry and, as a result, it was necessary to assist this operation financially in order for it to survive. To accomplish this, a $6.7 million loan guarantee was provided for operating capital purposes. The company was an established business and, in any event, the loan guarantee was approved pursuant to the extenuating circumstances guidelines.*

***Company C***

*Government transferred a loan guarantee as part of an arrangement with this company to purchase a fish meal plant from another company. The second company was part of a group of companies, which had a $600,000 loan guarantee approved in 1992. With the impact of the Northern Cod moratorium, the group's financial position continued to deteriorate and it was likely that the guarantee would have to be honored. The Department was of the view that the new company's proposal to purchase the meal plant assets and assume a major portion of the group's loan offered an acceptable alternative as a going concern, and also reduced the possibility of a guarantee payout. The guarantee on behalf of the group of companies was reduced proportionately, with the new company taking over a significant portion of the loan. No new funding was provided under the guarantee, and the new company negotiated repayment terms with its bank.*

*Consequently, we are not in agreement with your comments since, under the circumstances, conversion of the operating credit guarantee to a term loan guarantee was an acceptable alternative.*

- *With regard to your finding that guarantees are often in place for periods in excess of one year, we offer the following comments:*

  i. *Two of the guarantees in place were approved before the guarantee guidelines were established;*
  ii. *Once a guarantee is in place and an amount drawn down, the only way for Government to get out from under the guarantee is to pay out the loan. This would impact negatively on the financial position of the Province;*
  iii. *Certain guarantees have no expiry dates. This is considered on an individual basis and this practice is followed when it is more convenient for Government, the company and the bank;*
  iv. *The removal of the expiry dates in most cases was initiated to assist with the administration process and to avoid banks having to demand against the guarantees on an annual basis in order to protect amounts drawn down as of the expiry dates. Also, a demand to avoid any exposure at the expiry dates was viewed to be an unnecessary intrusion to companies that might otherwise have very satisfactory credit records.*

- *With respect to the inactivity of the Monitoring Committee, due to the substantial reduction in guarantees, in particular for companies in resource based industries, it was decided that the committee was no longer necessary. Despite this, however, interdepartmental consultations are undertaken when deemed appropriate.*

***Recommendation***

*The Department should update the Loan and Guarantee Program (Corporate) Procedures manual as required to reflect current policies and procedures.*

## 3.13 Loan Guarantees - Department of Finance

***Response***

- *The Procedures Manual will be updated to formalize procedures that are currently carried out by program staff, including;*

  i. *Guidelines used in the performance of annual reviews. It should be noted that regardless of Government's position, the financial institutions involved must be agreeable to any reductions in the guarantee; and*
  ii. *The recommended procedures and timetable for the regular monitoring of insurance policies.*

- *The determination of viability and community impact are considered in the analysis of the business plans and are noted and commented upon in the respective Cabinet Submission. It is our position that these factors are difficult to outline in a Procedures Manual and are more appropriately dealt with on a case by case basis.*

***Recommendation***

*The Department should ensure that a mechanism is in place to allow for the orderly reduction of outstanding loan guarantees.*

***Response***

- *Mechanisms and procedures are in place to provide for the orderly liquidation of loan guarantees. Our annual reviews include analysis of financial information, discussions with company management, updates of security and negotiations with the bank and company to reduce the amount of the outstanding loan guarantee, where feasible. The Procedures Manual will be updated to formalize these processes.*

- *It should be noted, however, that regardless of the mechanisms and procedures in place, it is the financial institution holding Government's guarantee that must agree to any reduction.*

***Recommendation***

*The Department should ensure that there is proper security for loan guarantees.*

## 3.13 Loan Guarantees - Department of Finance

***Response***

- *Best efforts are already undertaken to ensure all available security is provided to Government. Security normally includes chattels, personal guarantees, properties, intangibles and shares in other companies, where appropriate;*

- *Subordination of security positions (or for certain asset purchases) is part of the normal course of business for funding agencies and programs. It is normally the case that the additional assets and funding improves the operating efficiency of the company and reduces the risk to the Province under the respective guarantee;*

- *Market valuations of assets can be time consuming (therefore delaying approval) and expensive. In numerous cases, because of the location of the company/assets, these valuations would not provide meaningful information to Government. As most of the guarantees approved since 1990 are the result of extenuating or special circumstances, the process would be of minimal value;*

- *While the Department generally has not conducted credit checks, the companies do present short and long term debt positions in their proposals and/or business plans. As a result of the due diligence process, the Department is very familiar with the company and its banking relationships by the time a recommendation is made to Cabinet; and*

- *As noted, the Debt Management Division's status report does not include information on priority agreements. However, staff are obviously aware of these agreements as all related documentation has to be reviewed by Departmental staff and the Department of Justice prior to execution by the Minister. When the Province's ranking with respect to its security does become an issue, the necessary searches are undertaken on our behalf by the Department of Justice.*

***Recommendation***

*The Department should take prompt action to enforce its security and personal guarantees when a default on a loan guarantee occurs.*

***Response***

- *As pointed out in your report, a paper is presented to Cabinet before each payout to inform Cabinet of the circumstances of the payout as well as to seek direction with respect to the possible disposition of security;*

- *It is often the case that, due to the value of the assets, location, etc. the enforcement of security would be very expensive, such that funds would not cover the costs;*

- *It may also be the case that Government's chances of recovering guarantee defaults is enhanced if the company is permitted to continue operations;*

- *In the case of Company B, Government, as a means of continued support to the aquaculture industry and to meet its policy objectives, did not enforce its loan guarantee security. Instead, Government has offered to write off the debt and release its security if the company meets certain conditions. Government considers this course of action to offer the best chance of ensuring the continued operation of the company, the improvement of its financial position and the further development of the aquaculture industry in the Province;*

- *Company A (and its subsidiaries) were placed into receivership shortly after Government demanded payment in full under its security. No payment was received from the receiver as there have been no funds available to allocate to the Province. Under the circumstances no further collection activity is possible.*

***Recommendation***

*The Department prepare a more detailed annual report indicating the performance of the loan guarantee program.*

***Response***

- *All reports are presented to the House of Assembly as required by legislation. This includes the ratification of new guarantees, as well as increases and extensions of guarantees provided under authority of The Loan and Guarantee Act, 1957 and The Local Authority Guarantee Act, 1957. A list of all loan guarantee payouts is also tabled in the House of Assembly as required by the*

*Financial Administration Act. The guarantees are also included in the Public Accounts of the Province.*

- *In the case of loan guarantees involving extenuating circumstances, such as Company A and Company B, reports have been made to the Legislature, from time to time, by ministers of the respective departments involved.*

***Recommendation***

*The Department should establish a system that will highlight when a major milestone is reached so that appropriate action can be taken.*

***Response***

- *Although not currently provided for in the Procedures Manual, insurance files are reviewed on a periodic basis to ensure that policies are still in effect. This will be formalized in the Procedures Manual. While there may be periodic delays with respect to the receipt of insurance documentation, this monitoring requirement is now up to date.*

- *Company fiscal year ends are on file, and when noted, the companies are asked to provide information as required for monitoring and annual review purposes.*

- *Financial statements for one of the companies reviewed were always provided on a timely basis. The statements for the company's fiscal year ended January 31, 1999 were on file at the time of your review. Provision of the January 31, 2000 statements was deferred at the request of the company as it was in the process of restructuring its banking arrangements. This restructuring subsequently resulted in the Province being released from its guarantee.*

***Findings - Other Issues***

*"Four recipients of loan guarantees have also received loans and/or equity financing from the Department of Development and Rural Renewal. The provision of multiple forms of assistance increases the Province's total exposure in cases of default."*

- *The type of financing can vary depending on the program being accessed (i.e. term versus operating financing). However, there is nothing to preclude an applicant from accessing more that one financial assistance program, provided the criteria of each is met.*

- *Each department is generally aware of the other's involvement and consultation does occur, where necessary. The financing request is considered separately by each department and on its own merit.*

## 3.14 Privatization of Newfoundland Farm Products Corporation

### Introduction

Newfoundland Farm Products Corporation was established in 1963 under the *Farm Products Corporation Act*. As a Provincial Crown corporation, Newfoundland Farm Products Corporation produced a full range of chicken products which were marketed throughout the Province, the Maritimes and central Canada. The Corporation operated two federally inspected abattoir complexes in the Province, one in St. John's and one in Corner Brook.

In 1996, a new Board of Directors was appointed and given the mandate to pursue privatization of the Corporation. On 17 June 1997, Newfoundland Farm Products Corporation entered into an Agreement of Purchase and Sale with IPL Processing Limited, a subsidiary of Integrated Poultry Limited, and a Share Purchase Agreement with Integrated Poultry Limited and IPL Processing Limited. These agreements provided for the sale of the St. John's processing facility to IPL Processing Limited effective 4 October 1997. In October 1997, the sale of the St. John's processing operation to Integrated Poultry Limited, a consortium of local chicken producers, was concluded.

During the period from the sale in October 1997 to December 1999, the Province continued to provide financial and other assistance to Integrated Poultry Limited. On 15 December 1999, the bank demanded payment from Integrated Poultry Limited for its loans and issued a "Notice of Intention to Enforce Security". In late December 1999, Government and the bank formed a secured Creditor Committee and on 10 January 2000, Government, the bank and Integrated Poultry Limited signed an initial Forbearance Agreement to expire on 31 January 2000. This Agreement allowed Integrated Poultry Limited the opportunity to continue its search for new equity or other investors, without being subject to further action by Government and the bank. A supplementary Forbearance Agreement was signed that was effective 1 February 2000; however, when no new equity or other investors were found, Integrated Poultry Limited was placed in receivership on 23 February 2000.

On 9 March 2000, the assets of Integrated Poultry Limited were sold by the court appointed Receiver to10874 Newfoundland Inc.(now known as Country Ribbon Inc.), a company formed by ACA, a chicken processing company situated in Nova Scotia and Atlantic Co-op, a co-operative of chicken producers in Atlantic Canada. On this same day, Government entered into an agreement with 10874 Newfoundland Inc. regarding a number of issues affecting the Province's interest in Integrated Poultry Limited.

## 3.14 Privatization of Newfoundland Farm Products Corporation

On 27 June 2000, the Supreme Court of Newfoundland ordered that the report of the actions, activities and accounts of the Receiver and Manager was approved. On 7 September 2000, the secured creditor group, which includes the Province, met with the Receiver to review outstanding matters related to the receivership of Integrated Poultry Limited. The Receiver projected a final distribution of approximately $250,000 including estimated expenses to 23 October 2000, the date targeted for final presentation to the Courts.

### Scope and Objectives

We conducted a review of the Newfoundland Farm Products Corporation during 1997. Follow-up reviews were completed in 1998 and 1999 as the terms and conditions of the purchase and sale agreement between Newfoundland Farm Products Corporation and Integrated Poultry Limited were still being realized, and the divestiture process of Newfoundland Farm Products Corporation was still ongoing.

With the receivership of Integrated Poultry Limited in February of 2000, an additional review was conducted with the following objectives:

- review transactions during 1999-2000 between Government, Newfoundland Farm Products Corporation, and Integrated Poultry Limited including compliance with any agreements; and
- review transactions between Government, Newfoundland Farm Products Corporation and the purchaser of the assets of Integrated Poultry Limited, 10874 Newfoundland Inc.

We completed our review in November 2000.

### Conclusions

**Integrated Poultry Limited**

On 17 June 1997, Newfoundland Farm Products Corporation entered into an Agreement of Purchase and Sale with IPL Processing Limited and a Share Purchase Agreement with Integrated Poultry Limited and IPL Processing Limited. These agreements provided for the sale of the St. John's chicken processing operation to IPL Processing Limited effective 4 October 1997.

On 23 February 2000, Integrated Poultry Limited went into receivership and on 9 March 2000, the assets of Integrated Poultry Limited were sold by the Receiver to 10874 Newfoundland Inc. (now known as Country Ribbon Inc.), a company formed by ACA, a chicken processing company situated in Nova Scotia and Atlantic Co-op, a co-operative of chicken producers in Atlantic Canada.

## 3.14 Privatization of Newfoundland Farm Products Corporation

Since 1997, Government has provided financial assistance to Integrated Poultry Limited or incurred expenditures relating to Integrated Poultry Limited of approximately $22.2 million as detailed in Figure 1. The $22.2 million does not include either the transfer of a lease for land and buildings or the transfer of equipment of Newfoundland Farm Products Corporation to Integrated Poultry Limited for a nominal value of $1 each.

**Figure 1**

**Integrated Poultry Limited**
**Costs to Government**
**($ Millions)**

| Details | Amount |
|---|---:|
| Operating and capital grants | 8.5 |
| Write-off of loan receivable from IPL due to Newfoundland Farm Products | 1.5 |
| Payout under loan guarantees- Term Loan Guarantee | 11.5 |
| - Working Capital Deficiency Guarantee | 0.6 |
| - Grain Shipment Guarantee | 0.4 |
| | 12.5 |
| Transfer of lease for land and buildings of Newfoundland Farm Products (value unknown) to Integrated Poultry Limited for $1 | 0.0 |
| Transfer of equipment of Newfoundland Farm Products (value unknown) to Integrated Poultry Limited for $1 | 0.0 |
| **Sub-total** | 22.5 |
| Less: Final distribution to Province from Receiver - estimated | 0.3 |
| **Total** | **22.2** |

Source: Newfoundland Farm Products Corporation working papers

In addition to the above financial assistance, the following observations were also made with respect to Integrated Poultry Limited:

- During 1999, the Province also provided other loan guarantees in the amount of $1.9 million for certain financing transactions of Integrated Poultry Limited but the related loans were repaid and the loan guarantees cancelled.

- In October of each year, Integrated Poultry Limited was required to remit an annual loan guarantee fee, in the amount of 1% of the outstanding loan guarantee, to the Department of Finance. At the time of the receivership of Integrated Poultry Limited, Government was owed a total of $115,820 in guarantee fees which had been outstanding since October 1999. In preparing its 31 March 2000 financial statements, Government has provided a full allowance for the $115,820.

- During 1998-99, in order for Integrated Poultry Limited to obtain financing, Government relinquished a portion of its security on the assets of Integrated Poultry Limited. The remaining security on the assets were released upon the sale of Integrated Poultry Limited to 10874 Newfoundland Inc.

**Newfoundland Farm Products Corporation**

During the last period of operation in 1997-98 and up until the year ended 31 March 2000, Government has provided financial assistance to Newfoundland Farm Products of approximately $19.6 million as outlined in Figure 2.

**Figure 2**

**Newfoundland Farm Products Corporation**
**Payments from Government**
**1 April 1997 - 31 March 2000**
**($ Millions)**

| Details | Amount |
|---|---|
| Operating grants during last year of production (1997-98) | 3.4 |
| Production subsidy during last year of production (1997-98) | 0.7 |
| Termination benefits for employees | 3.8 |
| Operating grant for divestiture and operations of Corner Brook Plant | 0.5 |
| **Sub-total** | 8.4 |
| Assumption of bank indebtedness of Newfoundland Farm Products | 10.2 |
| Interest payment to Newfoundland Farm Products on above debt | 0.6 |
| Operating expenses for Corner Brook Plant paid directly by Department of Forest Resources and Agrifoods | 0.2 |
| Operating grant for monitoring activities of Integrated Poultry Limited | 0.2 |
| **Sub-total** | 11.2 |
| **Total** | **19.6** |

Source: Government's Financial Management System and Newfoundland Farm Products Corporation working papers

## 3.14 Privatization of Newfoundland Farm Products Corporation

**Agreement with 10874 Newfoundland Inc.**

On 9 March 2000, the Province, the Newfoundland Chicken Marketing Board, Newfoundland Farm Products Corporation and 10874 Newfoundland Inc. (now known as Country Ribbon Inc.) entered into an agreement regarding certain matters related to the purchase of IPL Production Limited and IPL Processing Limited by 10874 Newfoundland Inc. This Agreement included, among other things, the transfer of quotas and other Government approvals necessary for the Corporation to operate as well as the provision of an environmental indemnity guarantee by Government relating to the Pleasantville and Cochrane Pond sites. The Agreement also covers responsibilities by 10874 Newfoundland Inc., including the provision of a Business Plan to Government and a commitment to invest $3.0 million for capital improvements and to maintain continuously until 9 March 2005, an average employment level, expressed in person years, at not less than 75% of the employment level existing on 9 March 2000.

Government officials have informed us that, where determinable to date, the terms of the Agreement have been complied with. They have also indicated that other provisions, such as employment levels, are not yet measurable. This area will be subject to future audit by this Office.

## Detailed Findings

### Financial Assistance Provided by Government to Integrated Poultry Limited

The following summarizes the financial assistance provided by Government to Integrated Poultry Limited since the company assumed operation of the chicken production facilities in October 1997.

**1. $8.5 Million in Grants**

In 1997, when Integrated Poultry Limited assumed operation of the chicken production facilities, Government provided grants totalling $8.5 million. Of this amount, $4.5 million was for operations while the remaining $4.0 million was for capital infrastructure.

**2. $1.5 Million Owed to Newfoundland Farm Products Corporation by Integrated Poultry Limited**

Under the terms of the Purchase and Sale Agreement and the subsequent Share Purchase Agreement, Integrated Poultry Limited was to pay $2.0 million to Newfoundland Farm Products Corporation for the following:

- $983,819 for saleable product inventory, repayable in three equal monthly instalments commencing January 1999;
- $393,993 for packaging and raw materials inventory, repayable in three equal monthly instalments commencing March 1999; and
- $658,773 for operating losses incurred when Newfoundland Farm Products Corporation was jointly managed by Government and Integrated Poultry Limited, repayable in one instalment of $500,000 due in October 1997 with the remaining balance of $158,773 repayable in five equal monthly instalments commencing May 1999.

On 4 October 1997, the $500,000 due to Government for operating losses incurred when Newfoundland Farm Products Corporation was jointly managed by Government and Integrated Poultry Limited, was repaid. On 9 March 2000, Government authorized Newfoundland Farm Products Corporation to write-off the remaining $1.5 million owing.

### 3. $11.5 Million Term Loan Guarantee to Integrated Poultry Limited

In October 1997, as part of the sale of the St. John's processing operation to Integrated Poultry Limited, Government provided a $10.0 million term loan guarantee to this company. In December 1998, Government increased the $10.0 million term loan guarantee by $1.5 million for a total of $11.5 million. On 15 December 1999, the bank demanded payment from Integrated Poultry for its loans and issued a "Notice of Intention to Enforce Security". As a result, on 16 December 1999, Government paid the $11.5 million under guarantee to the bank.

On 20 December 1999, Government demanded payment of the $11.5 million from Integrated Poultry Limited and on 21 December 1999, Government issued a "Notice of Intention to Enforce Security". In March of 2000, Government authorized the write-off of the $11.5 million, including interest, and released all related security.

### 4. $1.0 Million Working Capital Deficiency Loan Guarantee to Integrated Poultry Limited

In October 1997, and subsequent to the Purchase and Sale Agreement, Government provided a working capital deficiency loan guarantee up to $1.0 million. This loan guarantee agreement included a provision for recovery of any costs incurred by the bank in recovering the related debt. On 15 December 1999, the bank demanded payment from the Province under the guarantee. The actual working capital deficiency totalled

$620,000 which the Province paid to the bank on 11 October 2000. As indicated in Figure 3, this $620,000 was comprised of the following:

**Figure 3**

**Working Capital Deficiency Guarantee Payment ($000's)**

| Description | Amount |
|---|---|
| Consulting fees | 265 |
| Administration fees charged by the bank | 225 |
| Legal fees | 220 |
| **Sub-total** | 710 |
| Less: Recovered by the Receiver | 90 |
| **Total** | **620** |

Source: Correspondence from the bank to the Minister of Finance

### 5. Financing of Grain Shipments

In October 1999, Integrated Poultry Limited requested Newfoundland Farm Products Corporation to provide financing for a shipment of grain. In November 1999, the Lieutenant-Governor in Council authorized Newfoundland Farm Products Corporation to borrow up to $1.7 million to purchase the grain shipment. This loan was guaranteed by the Province. The loan was to be repaid by 31 May 2000 from the proceeds of the sale of the grain to IPL Processing Limited and/or other customers as deemed appropriate. Newfoundland Farm Products Corporation borrowed $1.4 million to purchase the shipment of grain.

For the period 31 January 2000 to 22 February 2000, a supplementary forbearance agreement was entered into by the Province, Newfoundland Farm Products Corporation, the bank and Integrated Poultry Limited, which among other things provided for credit sales of grain to Integrated Poultry Limited. These credit sales amounted to $400,930 but, after recovery of the related harmonized sales tax and profits from grain sales to other parties, the uncollectible amount of credit sales and interest due on the related debt was $358,121. As a result of a demand for payment by the bank, the Province had to honor its guarantee and on 28 June 2000 repaid the outstanding principal and interest totalling $358,121. The Province subsequently demanded repayment from Newfoundland Farm Products Corporation for this payment.

### 6. Other Loan Guarantees

During 1999, other loan guarantees, in the amount of $1.9 million, were provided by the Province either directly to Integrated Poultry Limited or to Newfoundland Farm Products Corporation for operating activities of Integrated Poultry Limited. All related loans were repaid during the year and the loan guarantees of $1.9 million were cancelled.

### 7. Other Benefits Assigned to Integrated Poultry Limited

As part of the terms of the 1997 sale of assets of Newfoundland Farm Products Corporation to Integrated Poultry Limited, certain land and buildings of Newfoundland Farm Products Corporation in St. John's were leased to Integrated Poultry Limited for a nominal consideration of $1. In addition, all of Newfoundland Farm Products Corporation's unencumbered equipment in its St. John's plant was transferred to Integrated Poultry Limited for nominal consideration of $1.

### 8. Loan Guarantee Fees

In October of each year, Integrated Poultry Limited was required to remit an annual loan guarantee fee, in the amount of 1% of the outstanding loan guarantee, to the Department of Finance. At the time of the receivership of Integrated Poultry Limited, Government was owed a total of $115,820 in guarantee fees which had been outstanding since October 1999. In preparing its 31 March 2000 financial statements, Government has provided a full allowance for the $115,820.

### 9. Government Security on Loan Guarantees

As security for the loan guarantees that the Province provided to Integrated Poultry Limited, it took a first charge on certain assets of the Corporation. These included:

- first charge on the assets at the Pleasantville site;

- first charge on the assets at Cochrane Pond;

- first charge on real and personal property of the feed mill production facility in Mount Pearl and the grain storage facility in Conception Bay South;

- first charge on production licences/quotas;

- subordinate charge on all assets secured by the bank (receivables and inventory);

- second charge on all other assets of Integrated Poultry Limited; and

- $1.0 million personal guarantees from the Integrated Poultry Limited shareholders.

However, in August 1998, in order for Integrated Poultry Limited to obtain financing with a lending institution, Government relinquished a portion ($2.1 million) of its security on the real and personal property of the feed mill production facility in Mount Pearl and the grain storage facility in Conception Bay South.

Subsequently, in January 1999, in order for Integrated Poultry Limited to obtain an additional $1.0 million financing, Government subordinated its remaining security over the real and personal property of the feed mill production facility in Mount Pearl and the grain storage facility in Conception Bay South in favour of the lending institution. Government also subordinated $500,000 of its $1.0 million in personal guarantees from Integrated Poultry Limited shareholders, in favour of the lending institution.

All remaining security positions over assets were released with the sale of Integrated Poultry Limited to 10874 Newfoundland Inc.

### 10. Loan Guarantee for Receivership Costs

On 22 February 2000, Government issued a loan guarantee to the bank in the amount of $1.5 million concerning receivership related borrowings of the Receiver in respect of the receivership of Integrated Poultry Limited. As of September 2000, there has been no draw down of the $1.5 million loan guarantee as the receivership costs have been recovered through the receivership process.

## 3.14 Privatization of Newfoundland Farm Products Corporation

### Newfoundland Farm Products Corporation

During the last period of operation in 1997-98 up until the year ended 31 March 2000, Government has provided financial assistance to Newfoundland Farm Products of approximately $19.6 million as follows:

### 1. Year ended 31 March 1998

Our review indicated that during the last year of operation in 1997-98, Government made payments to Newfoundland Farm Products Corporation of $8.4 million as detailed in Figure 4.

**Figure 4**

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**Newfoundland Farm Products Corporation**
**Payments from Government**
**1997-98**
**($ Millions)**

| Description | Amount |
|---|---|
| Operating grants | 3.4 |
| Production subsidy | 0.7 |
| Termination benefits | 3.8 |
| Corner Brook plant special fund | 0.5 |
| **Total** | **8.4** |

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Source: Province of Newfoundland
Financial management information system

The operating grant amounts were used to cover operations for the period 1 April 1997 to 16 June 1997 while Newfoundland Farm Products Corporation was operating the processing plant and for the period from 17 June 1997 to 4 October 1997 while Newfoundland Farm Products Corporation was operating under the Joint Management Agreement with Integrated Poultry Limited. Also, operating funding was provided for the period 5 October 1997 to 31 March 1998 to facilitate the wind up of Newfoundland Farm Products Corporation.

## 3.14 Privatization of Newfoundland Farm Products Corporation

The production subsidy amount relates to the amount paid to producers. These funds flowed through Newfoundland Farm Products Corporation from Government to the producers.

Termination benefits relate to amounts paid to employees of Newfoundland Farm Products Corporation as severance pay and termination benefits. These funds were paid from the Provincial Labour Force Adjustment Fund through Newfoundland Farm Products Corporation to the affected employees.

The Corner Brook plant special fund relates to $500,000 that was set aside to be used towards divestiture and operating activities of the West Coast plant.

**2. For the years ended 31 March 1999 and 31 March 2000**

Since the sale of assets of Newfoundland Farm Products Corporation to Integrated Poultry Limited in 1997, Government has provided additional financial assistance to Newfoundland Farm Products totalling approximately $11.2 million as follows:

- $10.2 million in debt of the Corporation was assumed by Government in January 1999 and is now recorded as direct debt of the Province.

- $624,000 in interest was paid by the Corporation on the above demand loan for the period 1 April 1998 to 25 February 1999. When Government assumed the loan in January 1999, this interest of $624,000 was re-imbursed to the Corporation.

- $241,600 in operating expenses relating to the Corner Brook Plant was paid directly by the Department of Forest Resources and Agrifoods during the year ended 31 March 1999.

- $198,009 operating grant was provided to the Corporation by the Province during the year ended 31 March 2000 to be used towards the monitoring of the operation of Integrated Poultry Limited and the retention of professional consultants.

## 3.14 Privatization of Newfoundland Farm Products Corporation

### Agreement With 10874 Newfoundland Inc.

On 9 March 2000, the Province, the Newfoundland Chicken Marketing Board (Commodity Board), Newfoundland Farm Products Corporation and 10874 Newfoundland Inc. (the Corporation) entered into an agreement regarding certain matters related to the purchase of IPL Production Limited and IPL Processing Limited by the Corporation. A review of this Agreement indicated the following:

The Province's obligations under the Agreement included the following:

- All Quotas and licences, approvals or permits existing on 9 March 2000, required to enable the Corporation to validly carry on the Business, were transferred to the Corporation as well as the first right to any future Quotas which are created or become available. These Quotas can not be transferred, mortgaged, or assigned to any persons without the prior written approval of the Province and the Commodity Board.

- Effective for a period of five years from 9 March 2000, the Province agreed to provide an environmental indemnity relating to the Pleasantville and Cochrane Pond sites. Since this Agreement, the Corporation has uncovered contamination under its processing building caused by waste from its processing operations and accordingly, made a claim under the Province's indemnity guarantee. The Department of Works, Services and Transportation and the Department of Environment have since completed a preliminary assessment to remove the contaminated soil at an estimated cost of $45,000.

- By 14 March 2000, Newfoundland Farm Products Corporation was required to prepare an inventory listing, acceptable by 10874 Newfoundland Inc., of the various grains remaining in storage. 10874 Newfoundland Inc. agreed to purchase this grain for operations at market prices. This listing was prepared and the remaining grain was purchased by 10874 Newfoundland Inc.

Obligations of 10874 Newfoundland Inc. under the Agreement include the following:

- The Corporation was required to submit to Government, by 7 May 2000, a Business Plan pursuant to which the Corporation intends to continue to operate and expand the Business on an ongoing basis. This Plan was submitted to Government on 8 May 2000.

- To invest in integrated chicken production, processing and marketing activity, the sum of $3.0 million for capital improvements beginning during the 12 months following 9 March 2000 and to complete such investment by 9 March 2002.

- Not to seek any loan guarantees, grants or other forms of financial assistance from the Province in respect of the purchase of the Business or in respect of its operation of the Business.

- To ensure that a continuing supply of grain is available in connection with the broiler chicken growing operations of the Corporation and for sale to the rest of the agricultural community in a manner similar to the previous practices of Integrated Poultry Limited.

- To present to Government, by 7 April 2000, evidence acceptable to the Province of the resolution of all outstanding issues, related to the purchase of the Business, between the Corporation, the Bank of Nova Scotia, Eastern Grain Elevators Society Inc., Farm Credit Corporation and the Newfoundland Association of Public and Private Employees.

- To maintain continuously until 9 March 2005, an average employment level, expressed in person years, at not less than 75% of the employment level existing on 9 March 2000. Compliance with this term of the Agreement is not yet determinable.

In the event that 10874 Newfoundland Inc. fails to perform or observe, in any material respect, any of the obligations of 10874 Newfoundland Inc., the Government and the Commodity Board may, in their sole discretion, revoke all Quotas and other related Government approvals issued or granted to 10874 Newfoundland Inc.

Government officials have informed us that, where determinable to date, the terms of the Agreement have been complied with. They have also indicated that other provisions, such as employment levels, are not yet measurable. This area will be subject to future audit by this Office.

## 3.14 Privatization of Newfoundland Farm Products Corporation

### Department's/Board's Response

*Your report accurately reflects the nature of the transactions. For clarity to the reader, however, the Financing of Grain Shipments section should have also included the fact that Newfoundland Farm Products Corporation with the approval of Government borrowed approximately $1.5 million in April 1999 to purchase a grain shipment to meet the immediate needs of the agriculture industry in the Province. This loan was guaranteed to the Bank of Nova Scotia by Government and was fully repaid in May 1999. The grain shipment currently referred in your report was a second Newfoundland Farm Products Corporation financed grain shipment. It is noted that the April 1999 loan guarantee was included as part of your Other Loan Guarantees section however the nature of the guarantee did not provide the appropriate details.*

## 3.15 Land Development Expenditures

### Introduction

The Department of Forest Resources and Agrifoods is responsible for the management of all forest and agricultural activities of the Province. This responsibility is divided into four main programs: executive and administrative support, forest management, wildlife and agricultural development.

Within the agricultural development program the Soils and Land Management Division manages land in the Province through identifying areas suitable for agricultural development and expansion for silviculture initiatives; acting as an intermediary in objections to agricultural development; and mapping farmland and maintaining a database of land and soil information. This division administers a program called the Land Consolidation Program, which purchases farmland from retiring or exiting farmers for lease or resale to other farmers. It budgeted for and spent $300,000 on this program in 1999-2000. Since 1986, the Department has purchased approximately 1,400 acres of land from over 30 farmers. In 1999-2000 there were no new purchases of farm land; however, the Department is making annual payments for land purchased in 1993.

### Findings

In our review of the Department's expenditures for the year ended 31 March 2000, and specifically those under the Land Consolidation Program, we identified expenditures that did not meet the purpose for which the funding was approved by the House of Assembly. The Department's Estimates for the fiscal year 1999-00 for Land Development included $300,000 in capital funds for the acquisition of farmland under the agriculture Land Consolidation Program. In addition, the explanatory notes to the Estimates for the fiscal year 1999-00, indicated that *"Funding is provided to acquire farmland under the agriculture Land Consolidation Program"*.

Our review of actual expenditures for this program indicated that the Department used $64,000 of the funds provided for the acquisition of farmland to purchase three vehicles. On 18 January 2000, the Department purchased two vehicles at a cost of $19,200 each and on 10 March 2000, purchased one vehicle at a cost of $25,600. The remaining $236,000 was used to make the annual payments for land purchased in 1993.

A review of the Department of Works, Services and Transportation's vehicle fleet management approval forms indicated that one of these vehicles was purchased for the Production and Marketing Division, another for Extension Services and the third for the Animal Health Division.

## 3.15 Land Development Expenditures

**Conclusion**

There were no funds approved by the House of Assembly under the Soil and Land Management - Land Development Program against which expenditures of $64,000 for the purchase of three vehicles could properly be charged. As a result, these payments were made contrary to the *Financial Administration Act*.

**Recommendation**

*The Department should comply with the* Financial Administration Act.

**Department's Response**

*The findings as set out in your report paragraph are indeed accurate.*

*It is indeed regrettable that the wording in the Activity Note was not changed to more accurately reflect the type of expenditures necessary to carry out the program. The resource road construction activity is a good example of a more appropriate description. In hindsight the Department should have requested a transfer of funds to a more appropriately described activity. Due to a pressing need at the time to provide our staff with safe, road-worthy vehicles, the Agrifoods Branch neglected to follow the appropriate process. When this matter came to the attention of the Deputy Minister subsequent to year end, specific direction was given that no further vehicles were to be acquired from the activity. In future, the appropriate process will be followed.*

## 3.16 Inspection and Licensing of Food Premises

### Introduction

The Government Service Centre is a division of the Department of Government Services and Lands. It provides the public and the business community with access to a single Government department for their convenience when applying for various permits, licences, certificates and approvals. One of the services provided by the Government Service Centre is food premises inspection and licensing.

The *Food Premises Regulations* under the *Food and Drug Act* provide for the inspection and licensing of food premises. Food premises is defined as a place where food is prepared, manufactured, handled, cut, processed, packaged, displayed, stored, offered for sale, sold, or served and includes hotels, restaurants, catering vehicles, mobile preparation premises, temporary facilities, retail food stores, tents, booths, ships, cold stores, bakeries, breweries, bottling establishments, drinking establishments, dairies, creameries, pasteurizing plants, meat packing premises, and locker plants and premises.

The Government Service Centre is required to inspect food premises a specified number of times each year, with the frequency of inspection dependent upon the class of food premises involved. All classes require at least an annual inspection both to minimize health risk and to provide an opportunity to renew the licence originally issued.

### Scope and Objectives

The 1998 Annual Report of the Auditor General to the House of Assembly included a report item in Part 3.15 resulting from a review of food premises inspection and licensing activities at the Government Service Centre. The 1998 review disclosed that some food premises were operating without a valid licence and that food premises in the Province were not being inspected the required number of times each year.

On an annual basis, we monitor and update the comments and recommendations included in our previous Annual Reports to the House of Assembly. During our review, it came to our attention that one of the suppliers which provided various meat products to the health care facilities administered by the Health Care Corporation of St. John's was not licensed by the Department of Government Services and Lands as required by the *Food Premises Regulations.*

We completed our review of the licensing of the meat suppliers in October 2000. The review included discussions with officials of the Government Service Centre, officials of the Health Care Corporation of St. John's and, in accordance with the agreement between the Corporation and the food supply and production company, officials of the company responsible for meal preparation at the various health care facilities in the St. John's area. The review also consisted of an examination of related Departmental files.

## 3.16 Inspection and Licensing of Food Premises

The objective of the review was to assess whether the companies providing meat products to St. John's health care institutions were licensed under the *Food Premises Regulations* at the time the contract was awarded.

### Detailed Findings

We were advised by an official of the Health Care Corporation of St. John's that 6 companies were awarded contracts for the provision of the various meat products to the Health Care Corporation of St. John's during the period 1 March 2000 through 1 July 2000. We requested information from the Department as to whether the 6 companies were licensed under the Province's *Food Premises Regulations*.

Officials of the Department of Government Services and Lands advised us that 3 of the 6 food suppliers were required to be licensed under Federal legislation but that the other 3 should be licensed under the Provincial *Food Premises Regulations*. As the Department does not maintain information on Federal licences, we were unable to determine whether these 3 premises were in fact Federally licensed. Accordingly, at our request, contact with these suppliers was made by the Department confirming that Federal licences were in place. The 3 companies requiring Provincial licensing are in classes which require inspections to be conducted at least twice per year.

A review of documentation for the 3 food suppliers required to be licensed under Provincial legislation disclosed the following:

- One supplier had been licensed under the *Food Premises Regulations* in the 1998-1999 licence year but did not have a licence renewal inspection completed for 1999-2000. Furthermore, inspection for the 2000-2001 licence year was not completed until 20 April 2000. This inspection was not completed until after meat products were provided to the Health Care Corporation of St. John's in accordance with the contract. Inspections for this supplier were not completed in accordance with the required frequencies.

- The second supplier was last licensed in the 1998-1999 licence year. In this case, the last renewal inspection completed was in March 1998. As of September 2000, no inspections have been completed since March 1998. Inspections for this supplier were not completed in accordance with the required frequencies.

- The third supplier should have been licensed under the *Food Premises Regulations* but had not been licenced up to the point of our initial inquiry in March 2000. After receiving our request, an inspector was sent by the Government Service Centre to inspect the supplier's premises. Upon completion of the inspection, it was determined that the premises should have been licensed but had been missed. The company was not licensed until 13 March 2000.

  Officials indicated that the failure to licence the food premises operated by this supplier was an oversight but that the omission should have been detected through routine canvassing of the area by inspectors.

  In completing the licensing inspection, several health hazards were identified by the inspector, with compliance times recorded on the inspection report in which the supplier was to have the identified health hazards corrected. The compliance times ranged from April 2000 to June 2000.

  Our review indicated that there was no follow-up on these identified health hazards by the Government Service Centre to ensure they were corrected within the compliance times noted on the inspection report. As a result of our queries, a follow-up inspection was completed in September 2000 which indicated that the health hazards identified in March 2000 had been rectified; however, two new potential hazards were identified for which no compliance time was provided.

In 1998, we conducted an audit of the licensing and inspection of food premises by the Department of Government Services and Lands. At that time we expressed concern that the Department was not inspecting and licensing all companies as required under the *Food Premises Regulations* and the related Memorandum of Understanding. Based on the results of our subsequent review of the licensing of the meat supply contractors by the Department of Government Services and Lands, we are concerned that contracts for the supply of meat products for consumption at the Province's health care facilities are awarded to suppliers who are operating without the required licences and inspections.

**Department's Response**

*The process of using manual checks and controls has unfortunately resulted in inspections of some premises being overlooked. The Department has purchased an Application Management Tracking System (AMANDA) and has developed a food licensing folder using this software. Once this system is fully implemented, the Department will have the capability to electronically track the status of new and existing food premise licences. This system went live on April 3, 2000 and currently 1,036 food establishments have been entered into the system. There are approximately 5,000 establishments in the Province and our goal is to have all food establishments recorded and monitored using AMANDA by April 1, 2001.*

## 3.17 Weigh Scale Operations

### Introduction

The Department of Government Services and Lands is responsible for a number of Government's front line services to the public including: protection of consumers; regulation of the business and financial services industries; management of the Province's Crown land resource; driver and vehicle registration; maintenance of Provincial commercial, Crown land and vital statistics registries; and operation of the Government Service Centres. Figure 1 details the Department's expenditures for the year ended 31 March 2000.

**Figure 1**

**Department of Government Services and Lands**
**Expenditures**
**Year Ended 31 March 2000**
**($ Millions)**

| | Expenditures | | |
|---|---|---|---|
| Executive and Support Services | | | $ 1.2 |
| Commercial and Corporate Affairs | | | 3.0 |
| Government Services | | | |
| **Motor Vehicle Registration** | | | |
| Administration | $ 1.6 | | |
| **Driver Examinations and Weigh Scale Operations** | **2.0** | | |
| Licence and Registration Processing | 2.6 | | |
| National Safety Code | 1.1 | $ 7.3 | |
| Permitting and Inspection Services | | 8.3 | |
| Other Services | | 0.5 | 16.1 |
| Lands | | | 3.9 |
| Department Total | | | $ 24.2 |

Source: 2000 Public Accounts

## 3.17 Weigh Scale Operations

The Motor Registration Division (the Division) provides services based on the operation of vehicles in the Province. Such services include driver licensing, vehicle registration, enforcement of various related legislation, and the operation of the Provincial weigh scale inspection stations.

Operation of the Provincial weigh scale inspection stations is designed to monitor vehicles for compliance with various legislated highway safety standards. Vehicles which do not meet these standards pose a risk to both the safety of the public travelling on the Province's highways and to the highway infrastructure itself.

The primary focus of inspections by weigh scale inspectors is commercial motor vehicles having a gross vehicle mass in excess of 4,500 kilograms. There are an estimated 10,000 commercial motor vehicles registered in the Province which fall into this category. A commercial motor vehicle is defined as a vehicle designated to carry goods and includes a bus, school bus, truck, tractor, and other motor vehicles designed for commercial use. In addition to Provincially registered vehicles, there are a significant number of out-of-Province commercial motor vehicles which are subject to Provincial legislation when travelling within the Province. Information on the number of out-of-Province commercial motor vehicles travelling within the Province was not available.

There are five permanent weigh scale inspection stations in the Province located at intervals along the Trans Canada Highway. These stations are located at Foxtrap, Goobies, Grand Falls-Windsor, Pynn's Brook and Port aux Basques. In addition, there are six two-person inspection teams which provide weigh scale operations along the Province's road system using highway enforcement vehicles and portable weigh scales.

*Pynn's Brook Inspection Station*

## 3.17 Weigh Scale Operations

A total of 32 weigh scale inspector positions are in place throughout the Province. The weigh scale inspectors can be assigned to permanent stations or portable weigh scale teams.

Weigh scale inspectors are responsible for inspection and enforcement activities related to several legislative authorities, including the *Highway Traffic Act* and the *Dangerous Goods Transportation Act*. There are a significant number of regulations under the *Highway Traffic Act* including those governing: vehicle weight and dimensions; hours of service; load security; carrier safety; maintenance standards; driver requirements; licensing and equipment; insurance; trip inspections; and regulations for specific vehicles such as buses and ambulances.

Of the $2.0 million in expenditures reflected in Figure 1 for Driver Examinations and Weigh Scale Operations, $1.1 million relates to vehicle inspections and weigh scale operations. These expenditures primarily relate to staff salaries and transportation. Maintenance and upkeep costs of the weigh scale inspection stations are mainly funded through the Department of Works, Services and Transportation.

### Scope and Objectives

We completed our review of weigh scale operations in November 2000. The review included interviews with Department officials and the identification and analysis of existing processes in place at the Motor Registration Division. Our objectives were to determine:

- how the weigh scale program contributes to fulfilling the responsibilities of the Motor Registration Division in relation to highway safety in the Province;
- whether the Motor Registration Division has established policies and procedures to reflect the vehicle weighing and inspection processes;
- whether the practices in place for weigh scale operations are adequate in addressing program objectives;
- whether the Motor Registration Division has established performance indicators and monitoring procedures for use in evaluating weigh scale operations; and
- whether management receives information necessary for planning, decision making, control, and ensuring compliance with legislative responsibilities.

## 3.17 Weigh Scale Operations

### Conclusions

The Department of Government Services and Lands operates five permanent weigh scale inspection stations in the Province located at intervals along the Trans Canada Highway. These stations are located at Foxtrap, Goobies, Grand Falls-Windsor, Pynn's Brook and Port aux Basques. In addition, there are six two-person inspection teams which provide weigh scale operations along the Province's road system using highway enforcement vehicles and portable weigh scales. Weigh scale inspectors are responsible for commercial vehicle inspection and enforcement activities related to several legislative authorities including the *Highway Traffic Act* and the *Dangerous Goods Transportation Act*.

Operation of the Provincial weigh scale inspection stations is designed to monitor vehicles for compliance with various legislated highway safety standards. Vehicles which do not meet these standards pose a risk to both the safety of the public travelling on the Province's highways and to the highway infrastructure itself.

The administration of weigh scales activities is not adequate to ensure that the highway safety objectives of the program are being met. There is no planning process in place to ensure the use of available resources is optimized in addressing these objectives. As well, considerable judgement is exercised by weigh scale inspectors in the performance of their duties in terms of scheduling shifts, the inspection process, enforcement of legislative provisions, and documentation of their work. Compounding this is the fact that supervision of weigh scale operations is lacking and reporting is virtually non-existent. In particular, our review disclosed the following:

- There is no plan available which addresses activities for weigh scale inspectors. The current deployment of permanent inspection stations and portable inspection teams has been in place for several years and there has been no assessment carried out to determine whether current activities are optimal in achieving highway safety objectives.

- While the Department has indicated to the public that the permanent weigh scale inspection stations are open "*24 hours per day*", this is not the case. The hours during which permanent and portable weigh scale operations are operational contain significant gaps, many of which are predictable and could facilitate the avoidance of enforcement activities. Our review of one of the five permanent weigh scale stations indicated that the station was closed 1,811 hours of a total of 8,784 in 1999-00 or 20% of the total hours in the year. On a daily equivalent basis, this would equate to being closed a total of 75 days during the year. The number of hours closed ranged from 55 hours or 7% of the time in January 2000 to 286 hours or 38% of the time in July 1999.

- There is insufficient guidance to inspectors to assist in the performance of their duties. For example, there is no policy manual to provide direction to weigh scale inspectors. Although numerous memoranda have been prepared over the years, there is no master listing available to ensure the completeness of the memoranda retained by individual inspectors.

- Although a computerized weight measurement system was in place at permanent weigh scale stations visited during the review, considerable discretion is used by inspectors in the use of this system for enforcement purposes. As well, the system does not in itself detect whether a vehicle is over allowable weight limits. The computer system retains a record of the weight for each vehicle being weighed; however, it does not at present have the capability to determine whether the vehicle being weighed is within the permitted weight for its configuration. Accordingly, the system is severely limited in terms of monitoring activities at the weigh scale inspection stations. Also, the system is maintained on computers at the inspection stations that are not currently accessible by the Motor Registration Division for management information purposes.

- Weigh scale inspectors have several options available to them in dealing with instances of non-compliance with authorities identified when weighing commercial vehicles or when completing vehicle inspections. These include a verbal warning, a written warning, or a ticket summons. In addition, weigh scale inspectors may require commercial vehicles to offload a portion of their cargo to reduce weight as necessary. We found that these penalties are not consistently applied by weigh scale inspectors. As a result, this does not provide for consistency of enforcement for all commercial vehicles weighed at the permanent weigh scale stations throughout the Province.

- The legislative requirement which is posted at the permanent weigh scale inspection stations is for all commercial vehicles to stop if they have a gross mass in excess of 4,500 kilograms. In practice, commercial vehicles such as busses which are in excess of the 4,500 kilograms do not adhere to this requirement. As well, in practice, empty commercial vehicles which do exceed the 4,500 kilograms are permitted to by-pass the weigh decks at the permanent weigh scale stations; however, these vehicles are not examined to ensure that they are empty.

## 3.17 Weigh Scale Operations

- There is no reporting on weigh scale operations to assess whether these operations have contributed to the overall objectives of highway safety enforcement. This is in part due to a lack of available management information which can be used to assess the performance of weigh scale operations.

## Findings and Recommendations

### Planning

The Department of Government Services and Lands has an overall strategic plan which does identify a number of long-term operational objectives relating to the Motor Registration Division. Two of these long-term objectives are relevant to the Division's weigh scale operations.

One objective is the development of a formal policy and procedures manual by 2003. This manual is being completed in segments; however, the area of weigh scale operations had not been addressed at the date of our review. The second objective is the planned establishment of a communications network between all permanent inspection stations and Divisional offices by 2003.

There is no plan available which addresses activities for weigh scale inspectors. For example, we would expect the Division to priorize the vehicles to inspect, the procedures to be followed and, in the case of portable weigh scale inspections, the geographical areas to focus on. Based on discussions with Division officials, the current deployment of permanent inspection stations and portable inspection teams has been in place for several years and there has been no assessment carried out to determine whether current activities are optimal in achieving highway safety objectives. Summary information such as statistics on commercial vehicle activity, enforcement coverage by area, and infraction comparisons by area, is not available to assist in the deployment of resources.

This has particular relevance for patrol responsibilities of portable weigh scale inspectors in that there is no conscious effort to ensure all highway areas are covered. As well, patrols by portable weigh scale inspectors are primarily restricted to an eight-hour period and only from Monday through Friday. Division staff indicate that in practice, the enforcement activity of portable weigh scale inspection teams is based on personal knowledge of activity in their area, periodic consultation with supervisors, and complaints from the public.

## 3.17 Weigh Scale Operations

### Recommendation

*The Department should undertake an analysis of its current enforcement environment and prepare a strategy to deal with the issues identified. Such a strategy should be coordinated with other highway safety enforcement activities.*

### Hours of operation

#### 1. Scheduling - Permanent weigh scale inspection stations

The Department has indicated to the public that all permanent weigh scale inspection stations are open "*24 hours per day*". There are two types of schedules in place for the five permanent weigh scale inspection stations, one based on a combination of eight-hour and twelve-hour shifts and the other based primarily on a twelve-hour shift. For both types of schedules, only one inspector works each shift.

The decision as to which schedule would be used at each of the stations was made by the inspectors involved. While Division officials are aware of how staffing schedules are prepared, there was no indication that any recent analysis has been conducted to determine whether the approach used is appropriate. As well, management information is not maintained to monitor the hours that the permanent weigh scale inspection stations are open and to compare the actual hours worked to scheduled hours worked.

During our review, we visited two of the five permanent weigh scale stations, located at Foxtrap and Pynn's Brook. The results of our review of scheduling at these stations are as follows:

#### (a) Foxtrap

The schedule designed by staff at the Foxtrap station has been in use for several years. The schedule is based on a four-week period consisting of three eight-hour shifts per day from Monday to Wednesday and two twelve-hour shifts from Thursday through Sunday. The schedule contains one eight-hour shift each week, from 12:00 midnight to 8:00 a.m. each Wednesday, when the weigh scale is closed. We were informed that this was necessary as each staff member is to work an overall maximum of 40 hours per week. As the closed shift on Wednesdays over the years may have become predictable by drivers, it is possible that a driver wishing to evade inspection could choose this time.

## 3.17 Weigh Scale Operations

*Foxtrap Inspection Station*

The Department does not maintain any information comparing actual and scheduled hours worked. In order to determine the actual hours of operation for the Foxtrap station, we reviewed information which was available, in the form of a manual log book. We were advised that the maintenance of this logbook was not a Divisional requirement, but rather was retained by the inspectors at the Foxtrap station to record things such as changes in their shifts.

The logbook examined recorded information on the actual hours worked by inspectors and indicated the hours when the station was closed. As part of our review, an analysis was prepared of information contained in the logbook. A summary of the hours of operation is included in Figure 2.

**Figure 2**

**Summary of Hours of Operation**
**Foxtrap Permanent Weigh Scale Station**
**For the Year Ended 31 March 2000**

| Period | Total hours in period | Hours closed | Hours closed as a % of total | Hours open | Hours open as a % of total |
|---|---|---|---|---|---|
| April 1999 | 720 | 116 | 16.1% | 604 | 83.9% |
| May 1999 | 744 | 124 | 16.7% | 620 | 83.3% |
| June 1999 | 720 | 167 | 23.2% | 553 | 76.8% |
| July 1999 | 744 | 286 | 38.4% | 458 | 61.6% |
| August 1999 | 744 | 234 | 31.5% | 510 | 68.5% |
| September 1999 | 720 | 152 | 21.1% | 568 | 78.9% |
| October 1999 | 744 | 147 | 19.8% | 597 | 80.2% |
| November 1999 | 720 | 88 | 12.2% | 632 | 87.8% |
| December 1999 | 744 | 207 | 27.8% | 537 | 72.2% |
| January 2000 | 744 | 55 | 7.4% | 689 | 92.6% |
| February 2000 | 696 | 131 | 18.8% | 565 | 81.2% |
| March 2000 | 744 | 104 | 14.0% | 640 | 86.0% |
| Total | 8,784 | 1,811 | 20.6% | 6,973 | 79.4% |
| Equivalent Days | 366 | 75 | | 291 | |

Source: Manual Log Book retained at Foxtrap Permanent Weigh Scale Station

Although the hours of operation communicated to the public on the Department's web site are "*24 hours per day*", our review of the hours recorded in the manual log book indicated that the Foxtrap permanent weigh scale station was closed 1,811 hours in 1999-00 or 20% of the total hours in the year. On a daily equivalent basis, this would equate to being closed a total of 75 of the 366 days during that year. The number of hours closed ranged from 55 hours or 7% of the time in January 2000 to 286 hours or 38% of the time in July 1999.

The main reasons indicated in the logbook for station closures were inspectors being on leave, statutory holidays, and the closure of the station for the 8-hour shift each Wednesday from 12:00 midnight to 8:00 a.m.

Our review of the logbook also disclosed numerous instances where inspectors at the station change shifts with each other. These shift changes were managed by the inspectors themselves and did not require the approval of management. It was indicated that the attendance record forwarded to Headquarters does not reflect the actual days worked in these instances but rather the scheduled days for each staff member.

**(b) Pynn's Brook**

The schedule designed by staff at the Pynn's Brook station is similar to schedules for the remaining stations at Goobies, Grand Falls-Windsor, and Port aux Basques. While the formal schedule reflects a two-week period consisting of two twelve-hour shifts each day, we were informed that inspectors actually work six twelve-hour shifts and one eight-hour shift for a total of 80 hours per pay-period. As well, there is a closed shift each Sunday from 12:00 midnight to 8:00 a.m.

No manual logbook was maintained at the Pynn's Brook weigh scale station, as was the case for the Foxtrap station. Therefore, an analysis, similar to that contained in Figure 2, indicating the actual hours that the weigh station was open during 1999-00 could not be prepared.

Officials also indicate that there is no coordinated effort between regions with respect to scheduling. This could result in situations where a number of the five weigh stations could be closed during the same period, thus impacting significantly on overall coverage.

### 2. Scheduling - Portable weigh scale inspections

Discussions with portable weigh scale inspectors and a review of daily patrol information available for the year ended 31 March 2000, disclosed that hours of work for portable weigh scale inspectors are primarily from 8:00 a.m. to 4:00 p.m., Mondays to Fridays. There were some instances (such as planned vehicle checks) where enforcement initiatives caused these hours to vary; however, the overall daily patrol hours did not vary significantly.

## 3.17 Weigh Scale Operations

*Highway Enforcement Vehicle used by Portable Weigh Scale Inspectors*

As there are predictable patterns in enforcement hours, it is possible that a driver having knowledge of these schedules can avoid inspection.

### Recommendation

*The Department should review the impact of downtime and predictable hours of work on weigh scale operations. Consideration should be given to the coordination of hours of operation between regions.*

### Guidance for staff

Operations of the Provincial weigh scale inspection stations are designed to monitor vehicles for compliance with various legislated highway safety standards. Weigh scale inspectors are responsible for inspection and enforcement activities related to several legislative authorities, including the *Highway Traffic Act* and the *Dangerous Goods Transportation Act*. There are a significant number of regulations under the *Highway Traffic Act* including those governing: vehicle weight and dimensions; hours of service; load security; carrier safety; maintenance standards; driver requirements; licencing and equipment; insurance; trip inspections; and regulations for specific vehicles such as buses and ambulances. While the primary duty of weigh scale inspectors is to weigh commercial vehicles for comparison to highway safety limits, they are responsible for numerous inspection activities to determine compliance with the various legislative authorities. The following observations are made in relation to guidance provided to the inspectors in the conduct of their work:

- There is no policy manual to provide direction to weigh scale inspectors in the conduct of their work. Numerous memoranda have been prepared over the years which addressed specific issues as they arose. While these were to be forwarded to the inspectors, there is no master listing available to ensure the completeness of the memoranda retained by individual inspectors.

- Although there is a standard inspection form available for inspectors, the form is only completed in instances where the inspector issues a warning report or out of service notice. As a result, there is no record of the actual inspection procedures performed for all vehicles inspected. Information on specific inspection procedures performed and the results, if recorded, could be utilized by management both for monitoring weigh scale inspectors' activities and in conducting related risk analysis for planning purposes.

- Inspectors indicate that in the absence of specific direction from management, they use their own judgement in terms of the types of infractions to be targeted during inspections completed and the frequency of specific types of inspection. For example, one type of inspection which is not consistently performed is a review of drivers' log books for adherence to legislative hours of service provisions. Inspectors indicate that these reviews are quite time consuming and are infrequently conducted. As well, in the case of portable weigh scale inspectors, inspection procedures to be covered are for the most part determined by the inspectors themselves.

- While there have been some courses provided to inspectors covering specific areas, there is no formal training program in place for weigh scale inspectors. Training of new inspectors is primarily done on the job with the assistance of an experienced staff member.

**Recommendation**

*The Department should review current procedures in place with a view to improving direction to staff. Among those areas for consideration include: formal policy and procedures, standards for performance, and training.*

## 3.17 Weigh Scale Operations

### Discretion in enforcement

Weigh scale inspectors have several options available to them in dealing with instances of non-compliance with authorities identified when weighing commercial vehicles or when completing vehicle inspections. These include:

- issuing a verbal warning;
- issuing a written warning which requires follow-up action; and
- issuing a ticket summons for an infraction which normally carries a related fine.

In addition, the inspector may determine that the deficiency is of a nature that the vehicle cannot proceed further. In these cases, more immediate corrective action must be taken by the vehicle owner/operator. For example, if a vehicle is significantly in excess of the specified applicable maximum weight, arrangements could be made by the owner/operator to offload a portion of the vehicle's contents. Similarly, if there is a critical problem detected from the inspector's visual or other inspection of the vehicle, the owner/operator could either have the vehicle towed or have necessary repairs completed.

Division officials indicate there are a number of instances where legislative authorities governing the Province's highways are not strictly enforced. In these cases, significant discretion is used by the weigh scale inspectors in determining the course of action to be taken. Inspectors indicated that they have been informed by management that their primary focus should be on ensuring compliance with highway safety issues as opposed to strict enforcement of authorities through issuing ticket summons and resulting fines.

Our review of weigh scale operations, including discussions with weigh scale inspectors and other officials of the Division, disclosed the following examples where significant discretion is used by weigh scale inspectors in enforcing legislative requirements:

- If an inspector identifies less than three non-critical vehicle deficiencies during an inspection, than a ticket summons will not usually be issued. In those instances, a warning ticket only may be issued despite the fact that the various regulations under the *Highway Traffic Act* stipulate a penalty for each infraction identified.

## 3.17 Weigh Scale Operations

- In cases where multiple infractions are detected, the ticket will typically be issued for the infraction having the lowest dollar value.

- In practice, tickets are not issued for all overweight vehicles. A memorandum was circulated to inspectors indicating discretionary and non-discretionary tolerances which are to be considered for enforcement purposes. Such tolerances are to account for increases in load weight due to such things as weather and variations in wood density.

- Under the automatic computer system function in place at permanent weigh scale stations, after a vehicle has been weighed, a preset time will be provided by the computer system which, if not manually interrupted by the weigh scale inspector, will automatically signal the driver to proceed. The time delay is typically seven to eight seconds in length. Given that only one inspector is in place for each shift, this results in a situation where an observation of vehicle weight by the inspector or other inspection procedures cannot always be conducted for all commercial vehicles entering the weigh decks. This is due to the additional duties required of the inspectors, such as following up on inspection observations with drivers and attending to requests from portable inspectors for vehicle identification information through the Motor Registration Division on-line system accessible at the permanent weigh scale inspection stations.

- When a vehicle's weight has been determined, the weigh scale inspector has to determine whether that weight is in excess of the maximum applicable specified weight. This maximum weight would depend on the configuration of the particular vehicle. Given the number of possible configurations of the vehicles and the time delay function of the automatic computer system in place at the stations, considerable judgement is used by the inspectors in assessing whether the vehicle is overweight.

- The posted requirement at the permanent weigh scale inspection stations is for all commercial vehicles to stop if they have a gross mass in excess of 4,500 kilograms. In practice, commercial vehicles such as busses do not adhere to this requirement. The Division is aware of this issue but has not taken further measures with respect to addressing this aspect of enforcement.

- In practice, empty commercial vehicles are permitted to by-pass the weigh decks at the permanent weigh scale stations; however, these vehicles are not examined to ensure that they are empty. As well, empty woods trucks travelling east on the Trans Canada Highway, which pass the Pynn's Brook inspection station, are not required to enter the station's weighing area. While the underweight status of an empty woods truck would be apparent from a visual inspection, the same conclusion cannot always be drawn for other commercial vehicles which by-pass the weigh decks at a permanent weigh scale station. In addition, the inspectors at the weigh scale stations are responsible for inspecting not only the weight of the vehicle, but also to perform other inspection procedures.

## Management Systems

One of the objectives of our review was to determine whether management receives information necessary for planning, decision making, control, and ensuring compliance with legislative responsibilities. In addressing this objective, we first made a determination of the information that was received by management.

Our review disclosed that while inspectors at the permanent weigh scale inspection stations do maintain some information related to station activity, there was virtually no information used by management to assess and report on the permanent weigh scale stations.

Our review of activity reports prepared by the portable weigh scale inspectors disclosed that activity reports differed between the regions and the information provided was of limited use.

Although the Division's system can produce periodic statistical reports on all weigh scale operations, we were informed that such reports for the 1999-2000 year were not produced. We were, however, provided with a quarterly statistics report for the three-month period ended September 2000. Based upon a review of the September 2000 report, we make the following comments:

(a) the report has not been distributed to supervisors responsible for monitoring the work of the weigh scale inspectors;

(b) as weigh scale inspectors only report weight infractions and inspection deficiencies, much of the relevant inspection activity is not reflected in the statistics generated;

(c) information is input only as received, with no process in place to ensure the timely capture and completeness of such information; and

(d) the report allows for the inclusion of information on the number of vehicles weighed; however, this information is not currently provided.

**Recommendation**

*The Department should ensure that management receives information necessary for planning, decision making, control, and ensuring compliance with legislative responsibilities.*

**Department's Response**

*The Report concludes that the "administration of weigh scales activities is not adequate to ensure that the highway safety objectives of the program are being met." The Report also states that "considerable judgement is exercised by weigh scales inspectors in the performance of their duties in terms of scheduling shifts, the inspection program, enforcement of legislative provisions, and documentation of their work. Compounding this is the fact that supervision of weigh scale operations is lacking and reporting is virtually non-existent." The Department does not concur with this conclusion and the Report provides no statistical proof to justify this conclusion. Accident statistics and the results of national initiatives undertaken in this Province, such as Brake Check Days and Roadcheck Days, indicate as a province we are comparable with the rest of the country. In addition, results of our continuous internal audit of our carriers indicate a substantial improvement in the safety levels of our carriers.*

***Planning***

*The Report notes the lack of a formal policy and procedures manual; however, it also notes that the Division's strategic plan indicates one of its long term objectives is to have a complete manual in place by 2003. The Department has recognized this deficiency, however, the inability to devote dedicated resources to such a project has made this a long term objective.*

*The Report states that there is no plan which addresses activities for weigh scale inspectors. This statement is misleading as the Department has begun the development of such a management plan with a preliminary report produced this past summer. Over the past several years, the Motor Registration Division has been developing a management plan which* *encompasses both the highway enforcement officers as well as the weigh scale inspectors. The plan includes the following: (i) an analysis of the workload which involved breaking the Province down into twenty-one (21) inspection regions; (ii) determining the carrier breakdown in each region; (iii) determining travel time to each region; and (iv) modifications to the Division's computer system to record all work by an inspector. The plan must also take into consideration complaints from the public and supervisor's and inspector's knowledge of an area and local carriers. There is a conscious effort to ensure all areas are covered. This can now be detected through our inspectors' statistics report which clearly points out enforcement coverage by area and infraction comparisons. The development of this management plan is still ongoing and will take time to fully develop.*

*It is also important to point out that a weigh scale inspector's primary function is to weigh vehicles. Over the past several years the Department has provided specific training to inspectors and encouraged a greater role by them in vehicle inspections. The Department believes that setting benchmarks at this time would be premature as time is needed to fully develop the above noted management plan and to analyze the data over the next couple of years.*

*One must be careful when using the term "patrol", as used in the Report. Weigh scale inspectors have been directed to go into a region, set up to weigh in a safe location and then move on once their presence has become ineffective. These individuals are "inspectors" not "police officers" and work can only be conducted in safe locations on the side of a highway, which in many places is not available. Work must also be done during daylight hours as it is unsafe to work in the dark.*

***Hours of Operation***

*The Department agrees that hours of operation of permanent sites should be co-ordinated between regions as the objective is to provide weigh scale service, at a minimum, at one site at all times. Consequently, the Department intends to review this matter as well as downtime at the stations.*

*The Report points out that the "Department's current Web Site indicates that the permanent weigh scales are open "24 hours a day". The Department, however, cannot guarantee all five weigh scale stations are operating on this schedule. The Department's current Web Site is outdated and a new site is being developed, which is expected to go live in December and will not reference the hours of operation for the scales.*

*With respect to work schedules, the Department does not have a problem with inspectors adjusting their shifts provided that the hours reported on their time sheets are accurate. We intend to work with our staff in developing several schedules in order to alternate the downtime, bearing in mind our main concern is to ensure that at least one permanent weigh scale is open around the clock.*

*The Report also suggests that our portable teams should work outside the 8 a.m. to 4 p.m., Monday to Friday routine. The Department does not support this as it is not safe for staff to work in the dark. In addition, a supervisor or additional assistance is not available after normal hours for a portable team, therefore, officer safety would be comprised. Again, it is important to note that our inspectors do not "patrol" in the same manner as a "police officer".*

*Our clients are, for the most part, commercial carriers. The majority of long haul carriers who operate around the clock travel the Trans Canada Highway and stop at our permanent sites. The smaller, local carriers covered off by our portable teams, mostly operate a 9 a.m. to 5 p.m. business. Total altering our schedule, to try and catch a small percentage of carriers who try to avoid us by operating outside regular working hours, is not practical nor cost effective. In many cases these companies have other problems that are detected by other enforcement agencies. Roadside inspection data does not justify the increase in cost and the negative impact on officer safety to implement such schedules on a permanent basis. We believe that altering our schedules on a need to basis results in a more successful operation.*

### *Guidance for Staff*

*The Department recognizes the need for a formal policy manual and, as noted previously, is in the process of developing such a manual. The Report indicates that while numerous memoranda have been prepared over the years to address specific issues, no master listing is available. This will be addressed as part of the policy manual we are developing.*

*The Report notes that while there is a standard inspection form, it is only filled out by inspectors when issuing a warning ticket or out of service notice. Inspectors have in the past been encouraged to produce paper work for all inspections; however, the Department intends to review this matter to ensure data needed for planning and inspection purposes is properly captured.*

## 3.17 Weigh Scale Operations

*Specific training programs are developed as needed within existing resources. The Department is currently undergoing a training needs assessment program; however, given the Department's overall size, priority areas had to be established. It is our intention to cover all areas, including weigh scale inspectors, over time.*

***Discretion in Enforcement***

*The Report outlines examples where "significant" discretion is used by our inspectors in enforcing legislative requirements. As previously noted, the Division's main objective is to ensure compliance with highway safety issues; not to maximize on the number of tickets issued. This is accomplished by equipping our inspectors with the authority to apply discretion with limitations. Our goal is to work with industry to ensure our highways are safe and to assist them in maximizing on safety, not to put them out of business.*

*The Report states that "Given the number of possible configurations of the vehicles and the time delay function of the automatic computer system in place at the stations, considerable judgement is used by the inspectors in assessing whether the vehicle is overweight". This statement is incorrect as vehicle configurations and their weights limits are outlined in the* Highway Traffic Vehicles Regulations.

*The Report also states that buses do not report to the scales and "The Division is aware of this issue but has not taken further measures with respect to addressing this aspect of enforcement". This is also incorrect. We have a complete safety program for the bus industry. As well, given the consistent load on a bus, making them stop at weigh scales would only be interfering with passenger service.*
*The Department will review its policy on allowing empty trucks to bypass the scales as noted in the Report.*

***Management Systems***

*As noted earlier, management information reports are in the development stage and the intent is that these statistics will be used to maximize our resources.*

## 3.18 Hospital Boards

### Introduction

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions boards to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards. Figure 1 shows these eight boards and the regions for which they are responsible.

Figure 1

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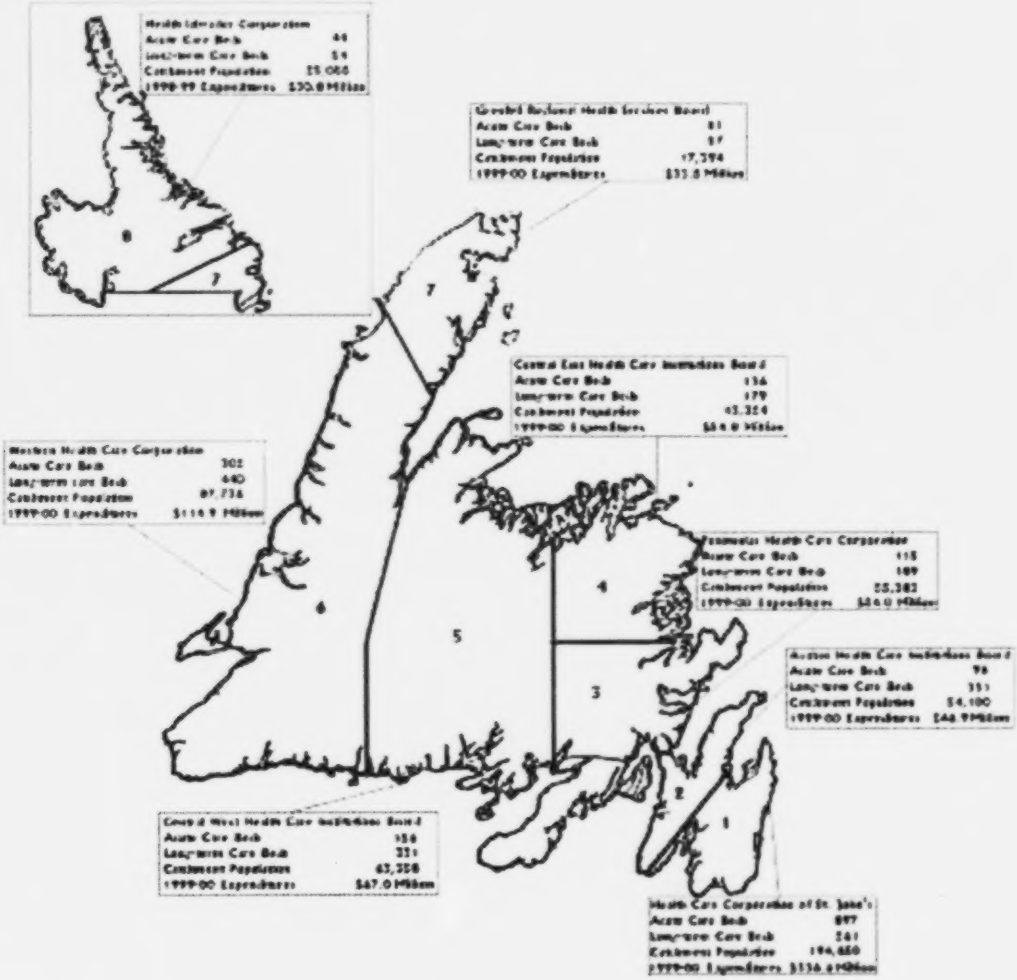
**Department of Health and Community Services**
**Hospital Boards**
**31 March 2000**


Health Labrador Corporation
Grenfell Regional Health Services Board
Central East Health Care Institutions Board
Western Health Care Corporation
Peninsulas Health Care Corporation
Avalon Health Care Institutions Board
Central West Health Care Institutions Board
Health Care Corporation of St. John's
Acute Care Beds
Long-term Care Beds
Catchment Population
1999-00 Expenditures
1
2
3
4
5
6
7
8

## 3.18 Hospital Boards

### Conclusions

The financial position of the eight hospital boards is continuing to weaken despite the injection of deficit reduction funding. In 1998-99, the Province provided the boards with $48.4 million to reduce cumulative deficits to 31 March 1999. In 1999-00, the Province provided an additional $31.3 million in stabilization funding comprised of $17.4 million in base budget stabilization funding and $13.9 million in one-time stabilization funding. Even with this extra funding, the boards still reported current year operating deficits totalling $20.0 million before non-shareable items for the year ended 31 March 2000.

In addition, the eight hospital boards are projecting operating deficits totalling $39.8 million before non-shareable items for 2000-01 fiscal year. This $39.8 million does not include increases in severance and vacation pay which are expected to further increase the deficits. Funding to alleviate these projected deficits has not been approved by the Department of Health and Community Services.

### Observations

#### Financial Position

As at 31 March 1999, the hospital boards had incurred $40.2 million in bank indebtedness and $59.1 million in supplier debt to finance operating expenditures. Furthermore, at that time, the boards would have required an additional $47.0 million to finance their current debt. In April 1999, the Province provided these boards with an additional $38.4 million to eliminate accumulated deficits to 31 March 1998, thus reducing the $47.0 million to $8.6 million. As at 31 March 2000, even with this deficit funding measure, and an additional injection of $31.3 million for 1999-00, the boards still required $20 million to finance their current debt. Figure 2 summarizes the financial position of the eight health care boards as at 31 March 2000 and 31 March 1999.

## Figure 2

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**Hospital Boards**
**Summary of Financial Information**
**31 March**
**($ Millions)**

| | Board | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 2000 | 1999 |
| Cash on Hand (Bank Indebtedness) | 9.5 | (4.9) | (3.9) | (2.6) | 3.6 | (11.4) | (0.1) | (1.9) | (11.7) | (40.2) |
| Accounts payable | (27.6) | (1.8) | (5.4) | (4.1) | (6.5) | (10.4) | (2.6) | (3.0) | (61.4) | (59.1) |
| Current LTD | (1.9) | (0.3) | (0.2) | (0.4) | (0.4) | (0.2) | - | - | (3.4) | (2.6) |
| Less: A/R | 25.6 | 3.5 | 3.6 | 3.5 | 2.4 | 9.7 | 2.9 | 5.3 | 56.5 | 93.3 |
| Net Asset (Liability) | 5.6 | (3.5) | (5.9) | (3.6) | (0.9) | (12.3) | 0.2 | 0.4 | (20.0) | (8.6) |
| Long-term debt | (125.3) | (5.6) | (6.0) | (3.9) | (7.7) | (4.4) | (0.9) | (1.3) | (155.1) | (94.5) |
| Severance pay | (41.0) | (5.2) | (4.4) | (5.7) | (6.9) | (13.6) | (3.2) | (2.0) | (82.0) | (73.8) |
| Vacation pay | (10.7) | (1.7) | (1.9) | (2.8) | (2.9) | (3.2) | (1.7) | (1.2) | (26.1) | (23.4) |
| Total Unfunded Liabilities | (171.4) | (16.0) | (18.2) | (16.0) | (18.4) | (33.5) | (5.6) | (4.1) | (283.2) | (200.3) |

Source: 31 March 2000 Audited Financial Statements except 31 March 1999 for #8, Health Labrador Corporation.

Figure 2 indicates the following:

- As at 31 March 2000, the cash positions of the boards varied, with six of the eight boards reporting bank overdrafts. The cash positions ranged from $9.5 million on deposit for the Health Care Corporation of St. John's to an overdraft of $11.4 million for the Western Health Care Corporation.

- The boards are reporting a combined net current liability of $20 million as at 31 March 2000, which represents the amount by which their suppliers credit and current portion of long term debt exceed their liquid (cash convertible) assets. This amount has not been funded by the Department.

- In addition to the operating debt of the hospital boards, there are also significant unfunded long-term liabilities. These liabilities result from $155.1 million in long-term debt, $82 million for severance pay due on retirement of employees and unused vacation pay of $26.1 million. Of the $155.1 million in long-term debt, $125.3 million relates to the Health Care Corporation of St. John's. Most of the $125.3 million relates to the construction of the new Janeway Hospital.

The total net unfunded liabilities of $283.2 million of the eight hospital boards as at 31 March 2000 will be affected by the results of current operations and the injection of any funds from Government. If the boards have annual operating surpluses in the future, these operating surpluses could be used to fund the $283.2 million of net liabilities. If, on the other hand, the boards have annual operating deficits, these operating deficits will also have to be funded in addition to the $283.2 million.

## Operating Results

Figure 3 shows the annual results of operations for the eight hospital boards for the years ended 31 March 1999 and 31 March 2000. The figure indicates the deficits before non-shareable items and after non-shareable items. The Department of Health and Community Services does not fund the non-shareable items. These non-shareable items do not require a cash outlay in that particular year and include depreciation, amortization, gain (loss) on disposal of capital assets, adjustments to incentives, net board operations, and changes in severance pay and vacation pay accrual. These non-shareable items, however, will most likely have to be funded sometime in the future.

## 3.18 Hospital Boards

**Figure 3**

### Hospital Boards
### Summary of Annual Operating Results
### Years Ended 31 March
### ($ Millions)

| | Surplus (Deficit) before Non-Shareable Items | | | Surplus (Deficit) after Non-Shareable Items | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 (Projected) | 1999 | 2000 |
| Health Care Corporation of St. John's | (4.3) | (2.6) | (11.9) | (9.0) | (10.1) |
| Avalon Health Care Institutions Board | (1.1) | (2.0) | (3.5) | (1.7) | (2.9) |
| Peninsulas Health Care Corporation | (1.0) | (4.4) | (5.9) | (1.8) | (5.3) |
| Central East Health Care Institutions Board | (1.8) | (1.8) | (3.9) | (2.4) | (3.0) |
| Central West Health Care Institutions Board | 0.1 | 0.2 | (1.2) | (2.9) | (2.0) |
| Western Health Care Corporation | (3.1) | (7.2) | (9.0) | (4.9) | (8.9) |
| Grenfell Regional Health Services Board | (1.3) | - | (0.9) | (2.0) | (0.4) |
| Health Labrador Corporation | (0.7) | (2.2) | (3.5) | (0.9) | (3.5) |
| Deficits per financial statements | (13.2) | (20.0) | (39.8) | (25.6) | (36.1) |
| Stabilization funding | (10.0) | (31.3) | 0.0 | (10.0) | (31.3) |
| **Total deficit before stabilization funding** | **(23.2)** | **(51.3)** | **(39.8)** | **(35.6)** | **(67.4)** |

Source: 31 March audited financial statements except no audited financial statements have been received for Health Labrador Corporation for 31 March 2000 therefore information received from the Department of Health and Community Services was used.

As Figure 3 indicates, all eight hospital boards incurred operating deficits after non-shareable items in 1999-00. The deficits ranged from approximately $400,000 for Grenfell Regional Health Services Board to $10.1 million for Health Care Corporation of St. John's. Although total Government funding provided to the boards has increased from $585.9 million in 1998-99 to $639.2 million in 1999-00, expenditures have also increased from $675.3 million in 1998-99 to $738.7 million in 1999-00 and, as a result, the boards continue to incur operating deficits.

## 3.18 Hospital Boards

During 1999-00, the Province provided the boards with an additional $17.4 million in base budget stabilization funding and $13.9 million in one-time stabilization funding for a total of $31.3 million. Although additional funding has been provided, the boards continue to incur significant operating deficits and only two boards were able to keep shareable expenditures within the available funding during 1999-00. In addition, our review indicated that all of the boards are projecting significant deficits in 2000-01. Figure 3 also indicates the actual operating deficit of each board for 1999-00 compared to the projected operating deficits for 2000-01 before non-shareable items of depreciation, accrued severance pay and accrued vacation pay.

In my Annual Report for the year ended 31 March 1999, I reported that the eight hospital boards were projecting an operating deficit for 1999-00 of $49.3 million before non-shareable items. The deficit reduction funding provided by the Province resulted in actual operating deficits being significantly lower than this initial projection; however, despite the Province's additional funding in 1999-00, the boards actual operating deficits for March 2000 were still $20.0 million. Furthermore, the boards are projecting total operating deficits of $39.8 million before non-shareable items for 2000-01. Additional deficit reduction funding has not been approved to meet this shortfall.

### Department's Response

*As pointed out in your Report these Boards were provided with an additional $31.3 million in stabilization funding in fiscal 1999-2000. For fiscal 2000-2001 the Department is currently working with Boards to identify ways to reduce the forecast deficit of $39.8 million while maintaining the delivery of core health care services. This situation is not unique to this Province as most health facilities across the country are struggling with deficit problems. The Department is committed to working with boards to ensure quality health care is delivered within the Province. Two other items of note are as follows:*

### *1. Special Review Team*

*The Government announced in the 2000 Budget the formation of a Special Review Team to work with Boards to identify core services and operational efficiencies. The Team is currently finalizing its report. Regional Health Boards have been requested by the Department to assess the findings of the Review Team and develop three year action plans.*

### *2. Health Accord*

*On September 11, 2000, First Ministers reached agreement on additional funding for health and other social programs which will increase federal transfers to the Province by $386 million over six years. The CHST funding increase, with the exception of the portion allocated for Early Childhood Development, will be used to pay for recent occupational reclassifications and assist Boards with their action plans.*

*With respect to specific details of the report the following points should be noted:*

- *Figure 2 - Severance Pay/Vacation Pay*

  *These two amounts of $108.1 million represent an accrual of the vacation and severance liability recorded by the boards over the years, but does not require a cash outlay on an ongoing basis. An employee who leaves during a period is paid the amount of vacation and severance owed and the associated cash costs are paid and charged to current operations. The Department does not fund these total liabilities on a cash basis.*

- *Figure 3*

  *Figure 3 provides information on the surplus/deficit positions of the boards before and after non-shareable expenses. The report specifically identifies the surplus/deficit positions after non-shareable expenses. These deficit positions do not represent the funding requirements since they include non cash costs such as amortization and accrued vacation and severance. The Department funds the boards based on the operations before non-shareable expenses. In 2000 the total deficit position the department would use for its funding determination would be $20 million as opposed to the $36.1 million. The Department only recognizes cash costs or the accrual of normal operating costs at the end of a fiscal year which are intended to be paid in the following year.*

## 3.19 Health and Community Services Boards

### Introduction

On 1 April 1998, Government transferred programs for community services from the Department of Human Resources and Employment to the Department of Health and Community Services. Effective this same date, Government directed that community service programs including Child Welfare, Community and Corrective Services and Family Rehabilitative Services, be integrated and delivered under the health and community services boards.

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western regions. Each of these boards has local offices throughout the Province. Health and Community Services in Northern Newfoundland and in Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively.

In addition to the programs transferred from the Department of Human Resources and Employment on 1 April 1998, the health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care and immunization services.

Community service programs that were designated for transfer on 1 April 1998 from the Department of Human Resources and Employment to the Western Regional Health and Community Services Board and to the Health Labrador Corporation were not transferred until 1 April 1999. For the 1998-99 year, these community service programs were administered directly by the Department of Health and Community Services.

### Conclusion

The financial position and operating results of the four health and community services boards remained in poor condition in 1999-00. The total net liabilities of the four boards increased from $800,000 at 31 March 1998, to $7.4 million at 31 March 1999 and further increased to $9.2 million at 31 March 2000.

The operating deficits before non-shareable items in 1999-00 was $2.8 million compared to $3.9 million in 1998-99 after $4.2 million in additional funding was provided by Government. Without this additional funding of $4.2 million, the operating deficits of $2.8 million for the four boards would have increased to $7.0 million.

## 3.19 Health and Community Services Boards

The 1999-00 operating deficit of $2.8 million indicates a slight improvement compared to the $3.9 million operating deficit incurred in 1998-99, but has deteriorated from 1997-98 when the four boards reported an operating surplus before non-shareable items of $2.2 million. The deterioration of the operating results of the four boards has occurred even though government provided additional funding of $2.3 million in 1998-99 and $4.2 million in 1999-00.

In addition, the four boards are projecting operating deficits totalling $7.8 million for 2000-01. This $7.8 million does not include increases in severance and vacation pay which are expected to further increase the operating deficits. The Department has not committed any additional funding to help fund these operating deficits.

### Observations

Our review of the Health and Community Services Boards' financial position in 2000 included an assessment of the financial results and financial position of the four boards in the Province. An overview of the financial position of these four boards for the three years ended 31 March is provided in Figure 1.

Figure 1 indicates that the financial position of the Health and Community Services Boards in 1999-00 is continuing to deteriorate. As Figure 1 indicates the total net liabilities of the four boards has increased from $0.8 million in 1998 to $7.4 million in 1999 and to $9.2 million in 2000. In 1999-00, the Department provided additional funding of $4.2 million to the boards. If this $4.2 million had not been provided, total net liabilities of the boards would have increased from the $9.2 million reported in Figure 1 to $13.4 million.

## 3.19 Health and Community Services Boards

**Figure 1**

**Health and Community Services Boards**
**Summary of Financial Position**
**31 March**
**($Millions)**

| | 2000 | | | | | Total | |
|---|---|---|---|---|---|---|---|
| | St. John's | Eastern | Central | Western | Total | 1999 | 1998 |
| (Bank Indebtedness) Cash | (0.8) | (1.0) | (0.8) | 2.6 | 0.0 | 0.7 | 9.0 |
| Accounts Payable | (2.9) | (1.2) | (0.6) | (1.4) | (6.1) | (6.1) | (4.0) |
| Less: Accounts Receivable | 3.2 | 1.0 | 1.5 | 1.7 | 7.4 | 7.0 | 0.4 |
| | **(0.5)** | **(1.2)** | **0.1** | **2.9** | **1.3** | **1.6** | **5.4** |
| Long-term Debt | (0.7) | - | - | - | (0.7) | (0.7) | (0.9) |
| Severance Pay | (2.6) | (1.3) | (1.3) | (1.5) | (6.7) | (5.9) | (3.7) |
| Vacation Pay | (1.0) | (0.8) | (0.6) | (0.7) | (3.1) | (2.4) | (1.6) |
| **Total Net Liabilities** | **(4.8)** | **(3.3)** | **(1.8)** | **0.7** | **(9.2)** | **(7.4)** | **(0.8)** |

Source: Audited Financial Statements

In addition, we made the following observations regarding the financial position of the boards:

- Three of the four boards had bank overdrafts as at 31 March 2000 to finance a part of their operations. The four boards went from having cash of $700,000 in 1999 ($9.0 million in 1998) to a nil cash position in 2000.

- Total net assets of $1.3 million as at 31 March 2000 represents the amount by which the boards' current liabilities are exceeded by their liquid (cash convertible) assets. The boards went from having total net assets of $5.4 million in 1998 to total net assets of $1.6 million in 1999 and $1.3 million in 2000.

- After adding in long-tem debt, severance pay and vacation pay, Figure 1 shows that the total amount of funding required to meet the total liabilities of these four boards as at 31 March 2000 totalled $9.2 million. This represents an increase from the $7.4 million reported in 1999 and $0.8 million in 1998. The $9.2 million will have to be funded sometime in the future.

The $9.2 million in total net liabilities as at 31 March 2000 will be affected by the results of current operations and the level of funding by Government. If the boards have annual operating surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the boards have annual operating deficits, these deficits, along with the liabilities, will also have to be funded.

Figure 2 indicates the annual results of operations for the health and community services boards for the years ended 31 March 1999 and 31 March 2000. The figure indicates the operating deficits or surpluses before non-shareable items and after non-shareable items. The Department of Health and Community Services does not fund these non-shareable items. These non-shareable items do not require a cash outlay in that particular year and include such items as depreciation, amortization, and changes in severance pay and vacation pay accrual. These non-shareable items, however, may have to be funded sometime in the future.

**Figure 2**

**Health and Community Services Boards**
**Summary of Annual Operating Results**
**Years ended 31 March**
**($Millions)**

| | St. John's | | Eastern | | Central | | Western | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Revenue | | | | | | | | | | |
| Provincial Plan | 57.6 | 53.7 | 31.9 | 29.7 | 30.5 | 28.9 | 28.7 | 12.9 | 148.7 | 125.2 |
| Board fund grant | - | - | 0.1 | 0.1 | 0.2 | 0.1 | - | - | 0.3 | 0.2 |
| Other | 0.1 | 0.1 | 0.1 | - | 0.4 | - | 1.1 | 0.2 | 1.7 | 0.3 |
| | 57.7 | 53.8 | 32.1 | 29.8 | 31.1 | 29.0 | 29.8 | 13.1 | 150.7 | 125.7 |
| Expenses | | | | | | | | | | |
| Administration | 4.8 | 4.4 | 14.2 | 12.8 | 3.0 | 2.4 | 2.7 | 2.3 | 24.7 | 21.9 |
| Client services programs | 54.4 | 51.2 | 18.6 | 17.9 | 28.5 | 27.5 | 27.3 | 11.1 | 128.8 | 107.7 |
| | 59.2 | 55.6 | 32.8 | 30.7 | 31.5 | 29.9 | 30.0 | 13.4 | 153.5 | 129.6 |
| Deficit before non-shareable items | (1.5) | (1.8) | (0.7) | (0.9) | (0.4) | (0.9) | (0.2) | (0.3) | (2.8) | (3.9) |
| Non-shareable items | 0.4 | 0.8 | 0.2 | 0.9 | 0.4 | 0.6 | 0.7 | 0.2 | 1.7 | 2.5 |
| Deficit after non-shareable items | (1.9) | (2.6) | (0.9) | (1.8) | (0.8) | (1.5) | (0.9) | (0.5) | (4.5) | (6.4) |

Source: Audited Financial Statements and Department of Health and Community Services

## 3.19 Health and Community Services Boards

Figure 2 indicates that each of the four boards incurred an operating deficit after non-shareable items in 2000 ranging from $0.8 million to $1.9 million. Annual operating results for these four boards have deteriorated since 1998 when only one of the boards, the Central Regional Health and Community Services Boards, reported a deficit of $200,000 after non-shareable items. Although total Government funding provided to the boards has increased from $125.2 million in 1998-99 to $148.7 million in 1999-00, expenditures have also increased from $129.6 million in 1998-99 to $153.5 million in 1999-00, and as a result, the boards continue to incur operating deficits.

During 1999-00, and included in the Provincial plan revenue in Figure 2, the Province provided the boards with additional funding of $4.2 million. Without this funding, the total operating deficits before non-shareable items of the health and community services boards would have been $7.0 million and not the $2.8 million operating deficit reported.

### 2000-2001 Budgets

The operating deficits, before non-shareable items, projected for 2000-01 by the health and community services boards are outlined in Figure 3.

As Figure 3 indicates, all boards are projecting significant deficits, before non-shareable items, totalling $7.8 million for the 2000-01 year. Included in the 2000-01 base budgets for the health and community services boards is an additional $3.1 million to help fund the deficits of the boards for 2000-01.

**Figure 3**

**Health and Community Services Boards**
**Actual and Projected Deficits**
**Years ended 31 March**
**($Millions)**

| Board | Actual Deficit before Non-Shareable Items | Projected Deficit before Non-Shareable Items |
|---|---|---|
| | 2000 | 2001 |
| Health and Community Services - St. John's Region | (3.1) | (2.8) |
| Eastern Health and Community Services Board | (1.7) | (2.4) |
| Central Regional Health and Community Services Board | (1.3) | (2.0) |
| Western Regional Health and Community Services Board | (0.9) | (0.6) |
| **Sub-Total** | **(7.0)** | **(7.8)** |
| Less: Additional Funding | 4.2 | - |
| **Total** | **(2.8)** | **(7.8)** |

Source: Audited Financial Statements and Department of Health and Community Services

## 3.19 Health and Community Services Boards

### Department's Response

*As pointed out in your Report these Boards were provided with an additional $4.2 million in stabilization funding in fiscal 1999-2000. These Boards are currently going through a period of significant change as they integrate traditional community health programs with programs transferred from the Department of Human Resources and Employment. They are also in the process of introducing new services such as those covered by the Child, Youth and Family Services Act. The Department, in collaboration with these boards, will be undertaking a program review of community health services in the near future in order to identify operating efficiencies and to stabilize their financial position. As noted these boards will also benefit from the recently announced Health Accord.*

### *Health Accord*

*On September 11, 2000, First Ministers reached agreement on additional funding for health and other social programs. A portion of this funding ($36.6 million) is allocated for Early Childhood Development. It is expected this funding will be used to stabilize service delivery in this area and enable investments in prevention and health promotion activities. The Department is currently consulting with stakeholders to determine how this funding should be spent.*

*With respect to the specific details of the report the following point should be noted:*

*In reference to Figure 1, severance and vacation pay, these two amounts of $9.8 million represent an accrual of the vacation and severance liability recorded by the boards over the years, but does not require a cash outlay on an ongoing basis. An employee who leaves during a period is paid the amount of vacation and severance owed and the associated cash costs are paid and charged to current operations. The Department does not fund these total liabilities on a cash basis. These amounts increased in part in fiscal 1999-2000 due to the Western Regional Health and Community Services Board assuming responsibility for the delivery of community service programs from the Department effective April 1, 1999.*

## 3.20 Newfoundland Government Fund Limited

### Introduction

The Newfoundland Government Fund Limited was incorporated on 10 November 1995 under the *Corporations Act* of the Province of Newfoundland. All shares of the Corporation are held by Ministers of the Crown on behalf of the Province. Its affairs are governed by a Board of Directors which is elected by the shareholders of the Corporation.

The Corporation is a Government-administered venture capital fund under the *Immigration Act* (Canada) and Regulations. Under the Canadian Immigrant Investor Program, the Corporation issued an Offering Memorandum in September of 1996 to raise funds from immigrant investors in order to provide loan and equity capital to establish, expand, purchase, maintain or revitalize businesses or commercial ventures in Newfoundland. For the immigrant investors, in addition to earning a nominal return on their capital, their investment in the Corporation helps satisfy a portion of their visa requirements under Canada's Immigrant Investor Program.

The offering was comprised of a number of units each of which represents a $250,000 promissory note bearing interest at the simple rate of 2% per annum. Although each promissory note is repayable in full five years from the date on which 70% of the investor proceeds are invested, or is refundable upon refusal of an investor's Canadian visa application, neither the Government of Canada nor the Government of Newfoundland and Labrador offers any guarantees or assurances of a return on an investor's original investment and neither government is liable for any loss or damages that may be suffered by an investor as a result of the investment. The minimum and maximum amounts of the offering were $3,500,000 (14 units) and $35,000,000 (140 units) respectively.

For the purposes of facilitating the marketing and closing of these investment units, the Corporation engaged the services of an escrow and distribution agent. For the provision of these services, as at 31 December 1999, the Corporation incurred distribution and marketing fees of $927,500 (7% of the offering proceeds of $13,250,000) and reporting and liaison fees of $86,564 (0.6% annually of the offering proceeds).

The offering expired on 30 June 1998. As of 30 April 1999, Citizenship and Immigration Canada required the Corporation to finalize its investor listing to the maximum offering of 140 units. Figure 1 provides information on the status of these 140 investor units at 31 October 2000.

## 3.20 Newfoundland Government Fund Limited

### Figure 1

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**Status of Investor Units**
**31 October 2000**

| Status of Investor Units | Number of Units | Number of Investors with visas issued | Proceeds Held by Fund | Unit Deposits Held By Escrow Agent | Subscription Proceeds Receivable | Total Potential Subscription Proceeds |
|---|---|---|---|---|---|---|
| Units closed and proceeds invested (note 1) | 53 (note 2) | 39 | $13,250,000 | $ - | $ - | $13,250,000 |
| Units closed and proceeds not invested | 20 | 20 | $5,000,000 | - | - | $5,000,000 |
| Units with full subscription proceeds awaiting approval of Fund for closure and release proceeds to Fund | 19 | 13 | - | 4,750,000 | - | 4,750,000 |
| Units for which the full subscription proceeds have not been received | 9 | - | - | 406,688 | 1,843,312 | 2,250,000 |
| Units for which no deposits are held in Escrow | 16 | - | - | - | 4,000,000 | 4,000,000 |
| Units Refunded to Investors | 6 | - | - | - | - | - |
| Units withdrawn | 17 | - | - | - | - | - |
| **Total** | **140** | **72** | **$18,250,000** | **$5,156,688** | **$5,843,312** | **$29,250,000** |

Source: HSBC Capital - Investor Listing 31 October 2000
Note 1: The Corporation is required to invest 70% of Subscription Proceeds in eligible businesses
Note 2: This does not include 1 unit which was refunded in February 2000

## 3.20 Newfoundland Government Fund Limited

### Scope and Objectives

We updated our review of Newfoundland Government Fund Limited in November 2000. The objectives of our review were to determine the status of the investment units and to assess the Corporation's progress with respect to our observations and recommendations included in our 1998 and 1999 reports.

### Conclusions

The Corporation has taken action to address many of the issues that we raised in previous reports. However, further improvements are required. For example:

- The Corporation has not invested 70% of the $5 million investment proceeds closed in January 2000 (or $3.5 million) in eligible business operations within 9 months after the release of the proceeds from the Escrow Agent. Therefore, the Corporation is not in compliance with the *Immigration Act* (Canada) and Regulations.

- The Corporation had still not exercised its rights as permitted under the Offering Memorandum to have the Escrow Agent enforce the requirement that investors make the minimum required deposit and pay the balance within the required time frame. As well, subscription documents are not being forwarded to the Corporation on the closing dates by the Escrow Agent. Therefore, the Corporation is still not exercising all of its rights in accordance with the Offering Memorandum.

- The Corporation has not approved the closing of units on a timely basis which results in a loss of interest revenue for the Corporation.

As of November 2000, the Corporation has invested $9.45 million in two eligible projects which involve the construction of health care facilities in Bonne Bay and Fogo Island. The prime consultants have been selected for each project and work on project design and site construction is progressing. The developer has been selected for the Bonne Bay project and once the formal agreements are signed, the Corporation will make a final advance of $3.9 million for a total investment of $8.9 million in the Bonne Bay health care facility.

It is expected that the tender for the developer in the Fogo Island project will be called in spring 2001. The latest estimate of the cost of the Fogo Island health care facility is $8.8 million, however, the final cost will be finalized once the developer is selected.

> The total investment in the two eligible projects may be $17.70 million based upon the known cost of the Bonne Bay project and the most recent estimate of the Fogo Island project, which will represent 70% of the proceeds received from 102 investors. The Corporation has already used the proceeds received from 54 investors to fund the first advance for the two projects. Therefore, the Corporation requires that an additional 48 units are available for the final advances to the projects. We were informed by Corporation officials and the Escrow Agent that it is unlikely that the proceeds from 102 units will be available for investment by the Corporation as all visa applications may not be approved. As a result, the Corporation may not have sufficient proceeds to fully fund approved eligible projects.

## Findings and Recommendations

### Investment in Eligible Projects

In September 1999, three investments in eligible projects had been identified and approved by the Corporation's Board of Directors and Treasury Board. These projects involved providing funding for the construction of three health care facilities to be located as indicated in Figure 2.

**Figure 2**

**Approved Investments in Health Care Facilities**
**($ millions)**

| Location | Bonne Bay | Fogo Island | Grand Bank | Total |
|---|---|---|---|---|
| Estimate of Project Investment | 8.5 | 8.0 | Maximum of 5.2 | 21.7 |
| Revised Project Investment | 8.9 | 8.8 | Maximum of 5.2 | 22.9 |

Citizenship and Immigration Canada approved the investments for health care facilities in Bonne Bay and Fogo on 29 September 1999. In October 1999, the contracts between the prime consultants, the Department of Works, Services and Transportation, the applicable health care boards and the Corporation for the Bonne Bay and Fogo Island projects were signed. On 29 November 1999, the Corporation advanced $5 million to a trust account for the Bonne Bay project and $4.45 million to a trust account for the Fogo Island project. We were informed by officials of the Corporation that the scope of the Grand Bank project has changed so that the Province may assume direct responsibility for funding the project, and the Corporation will not be investing in this project as planned. As of November 2000, a decision with respect to how the Grand Bank health care facility will be funded has not been made. I intend to audit these trust accounts.

The progress of the Bonne Bay and Fogo Island projects is as follows:

- **Bonne Bay Health Care Facility**

  In July 2000, a tender was called for a developer who will obtain financing from the Corporation to construct the health care centre in Bonne Bay and enter into a 20 year operating lease with the Western Health Care Corporation for use of the facility. In September 2000, the developer was selected for this project with a total construction cost of $8,900,000. As $5 million has already been advanced to the Bonne Bay trust account, the Corporation will make a further advance of $3.9 million once the formal agreements have been signed. According to officials of the Corporation, the agreements should be finalized by the end of November and the final advance to the trust account will be made.

  The health care facility is expected to be completed by December 2001. The facility will then be leased to the Western Health Care Corporation for a 20 year term at an annual lease payment of $728,762 (plus HST). The draft lease agreement does include a provision for the Western Health Care Board to purchase the facility at either the end of the term of the lease (20 years) at a purchase price of $5,340,000 (60% of construction cost) or when the Newfoundland Government Fund is repaid its full investment of $8.9 million (5 years after the date of the final advance) at a purchase price of $8,010,000 (90% of construction cost).

  As of 30 September 2000, total expenditure incurred for the Bonne Bay project is $1,019,700 as follows:

  - $648,000 in consultant fees
  - $362,400 for site construction
  - $9,300 for purchase of land for the health care facility site and miscellaneous costs

- **Fogo Island Health Care Facility**

The Fogo Island project has not progressed to the same extent as the Bonne Bay project. The tender for the developer is expected to be called in spring 2001.

As of 30 September 2000, total expenditure incurred for the Fogo Island project is $740,700. Expenditures consists of:

- $444,400 in consultant fees
- $76,300 in expenses incurred by the Central East Health Care Board for consultant services
- $220,000 for purchase of land for the health care facility site

In August 2000, a tender was awarded for site development and services in the amount of $555,000 (plus HST).

As of 31 October 2000, the total investment by the Corporation is presented in Figure 3.

**Figure 3**

**Total Estimated Investment in Eligible Projects ($ millions)**

| Advance to Trust Account | Bonne Bay Project | Fogo Island Project | Total Estimated Investment | Number of Investors required to fund the advance |
|---|---|---|---|---|
| 29 November 1999 | $5.0 | $4.45 | $9.45 | 54 |
| Final Advance (date to be determined) | $3.9 | $4.35 | $8.25 | 48 |
| **Total Investment** | **$8.9** | **$8.8 *** | **$17.70** | **102** |

* Estimated Project Cost

## 3.20 Newfoundland Government Fund Limited

The total investment thus far of $9,450,000 in the Bonne Bay and Fogo Island projects represents 70% of the proceeds from the Confidential Offering Memorandum for the 54 investors closed by the Corporation on 29 November 1999. The five year holding period for these investors commenced 30 November 1999. The total investment of $9.45 million advanced on 29 November will have to be repaid to the Newfoundland Government Fund five (5) years after the investment date. In addition, the Corporation will earn interest at a rate of 5% per annum payable annually.

As indicated in Figure 3, in order for the Corporation to obtain the additional $8.25 million estimated to be required to fully fund these two projects, it will require 48 units in addition to the 54 that it already has, for a total of 102 units. However, we are concerned that not all of the 48 units will be closed and therefore the additional $8.25 million required to fully fund the two projects may not be available for the following reasons:

- As at 31 October 2000, the maximum number of investors that could be available is 64. The Escrow Agent informed us that it is highly unlikely that 16 of these units which have no deposits held in escrow will be closed. As a result, the number of units remaining that will be available for investing is 48 units. However, it is unlikely that all of these 48 units will materialize since visa approval is still pending for 15.

- For the 54 units that have been closed and the funds have been invested, visa approval is still pending for 14 units. If the visa applications are rejected for any of these 14 units, the $250,000 for each unit will have to be refunded to the investor. There has already been one investor whose visa application was rejected and, as a result, the Corporation had to refund $250,000 to the investor.

### Compliance with Canadian Immigration Regulations

As an approved Government-administered venture capital fund, the Corporation is required to comply with the Canadian Immigration Regulations under the *Immigration Act* (Canada). In accordance with the Regulations, the Minister of Citizenship and Immigration Canada may suspend the approval of the Newfoundland Government Fund Limited if the Corporation does not comply with certain terms or conditions.

## 3.20 Newfoundland Government Fund Limited

Our review indicated that the Corporation is not complying with the Regulations that at least 70% of the investment proceeds be invested in eligible business operations within 9 months after the release of the proceeds from the Escrow Agent. On 19 January 2000, $5,000,000 in subscription proceeds, representing 20 units, had been received by the Corporation. Under the Regulations, $3,500,000 (70%) of this amount was required to have been invested in eligible projects within 9 months of receiving these funds (i.e. 19 October 2000); however, none of these funds have been invested as of 31 October 2000. As a result, the Corporation is not in compliance with Canadian Immigration Regulations.

### Compliance with the Confidential Offering Memorandum

The Corporation issued a Confidential Offering Memorandum in September 1996 which outlined the terms and conditions of investment to potential investors. The Corporation is not in compliance with all of the terms of the Confidential Offering Memorandum, nor has it exercised all of its rights in accordance with the Memorandum. For example:

- Under the terms of the Confidential Offering Memorandum, subscribers are required to make a minimum non-refundable deposit of $50,000, with the balance to be paid within 60 days of the deposit date. The Corporation is still not enforcing these requirements. As at 31 October 2000, there are 4 units with deposits greater than $50,000 and 5 units with deposits less than $50,000. Furthermore, all 9 units have been outstanding for more than 60 days of the deposit date. As well, there are 16 units with no deposit. We raised this issue in both our 1998 and 1999 Annual Reports to the House of Assembly and as of November 2000, the Corporation has still not taken any action to enforce these requirements.

- The Escrow Agent is required to provide subscription documents including signed copies of Subscription Agreements on closing dates to the Corporation. We examined the subscription documents of the 20 investors whose units were closed on 19 January 2000. Our review indicated that 12 investors' files were missing various subscription documents such as the Subscription Agreement, Waiver of Certain Escrow Provisions, Acknowledgment By Immigrant Investor and Investor's Letter of Acknowledgment as required by the Confidential Offering Memorandum.

After we raised the issue of missing documentation, the Corporation requested the information from the Escrow Agent and all the required documents for these 12 investors were received. Upon reviewing this documentation, it was determined that in 5 instances, although the investors' Subscription Agreements were signed by the Escrow Agent and the investor, they were not signed by the Corporation because the Escrow Agent had not forwarded the Subscription Agreements to the Corporation on the closing date as specified in the Escrow Agreement.

### Closing of Investor Units

A review of the Investor Listing for 31 October 2000 provided by the Escrow Agent indicated that there were 19 units that were ready to be closed. Once the Corporation approves the closure of these units, $4,417,500 will be transferred to the Corporation's bank account. Of the total number of units that are ready to be closed at 31 October 2000, 9 of these units have been ready to be closed since 29 February 2000 and approval has still not been provided by the Corporation at 31 October 2000. Delay in approving closure of these units results in a loss of interest revenue for the Corporation.

### Recommendations

*The Corporation should review the planned investments and the expected proceeds from investors to ensure that there is sufficient funding available for the Corporation to invest in the approved eligible projects.*

*The Corporation should comply with the* Immigration Act *(Canada) and Regulations.*

*The Corporation should ensure compliance with the Confidential Offering Memorandum and should consider all of its rights under the Memorandum.*

*The Corporation should continue efforts to properly maintain all records of the Corporation.*

*The Corporation should review and approve the closure of investor units on a timely basis.*

## 3.20 Newfoundland Government Fund Limited

### Corporation's Response

***Investment in Eligible Projects***

*The Corporation is aware of the issues relating to potential subscription proceeds and the ability to fund two eligible projects. The only certainties at this time are that 92 investor units will close and $8.9 million will be invested in the Bonne Bay hospital project. While it appears, based upon your analysis, that the Corporation may not realize sufficient proceeds to fully fund the two projects into which it has already invested $9.45 million, it may be premature to draw conclusions until all potential subscriptions have closed and the construction cost of the Fogo Island project is known. There is no requirement that the Corporation provide 100% project financing. Accordingly, if there is indeed a shortfall, the Corporation may have to consider other options, such as advancing a loan to the developer of the Fogo Island project for only a portion of the construction cost, with the developer arranging the balance of his required funding.*

***Compliance with Canadian Immigration Regulations***

*When the amount of $9.45 million was advanced to the trust accounts for the Bonne Bay and Fogo Island hospital projects on November 29, 1999, the Corporation had invested all of the funds available at that date, thereby putting itself into compliance with the Act and its Regulations. The Corporation remained in compliance until very recently.*

*As you note, a further closing occurred during January, 2000 and therefore funds of $3.5 million should have been invested by October, 2000. This has not yet occurred but, as we advised your staff, this amount will also be invested in the Bonne Bay project and the investment is anticipated to close by early December. In essence then, while the Corporation is currently not in compliance, this situation has existed for only a very short period of time and will soon be corrected.*

***Compliance with the Confidential Offering Memorandum***

*Your comments refer primarily to requirements with respect to payment of minimum deposits and the balance of the subscription price. Until recently, the Corporation's efforts were focused primarily on putting in place a leasing arrangement which met the investment objectives outlined in the Offering Memorandum and complied with the Federal Regulations. These difficulties have been resolved and our funding and leasing arrangements have been accepted by Citizenship and Immigration Canada. As you have noted, funding of the Bonne Bay and Fogo Island hospital projects has commenced.*

*The proceeds from all closings which have occurred to date have been invested in these eligible projects and sufficient monies are available to fully fund the Bonne Bay project, which is currently under construction. The Fogo Island project is not expected to be ready for a tender call until the spring of 2001 and the unpaid investor units are essential to ensuring adequate funding will be available for this second project. Accordingly, the Corporation intends to enforce the requirements with respect to minimum deposits and payment of the full subscription price.*

*We note your comment that the Corporation has made improvements with respect to records management and we will continue these efforts.*

***Closing of Investor Units***

*Once units are closed and the proceeds transferred to the Corporation, the funds must be invested in eligible projects within nine months. Due to the fact that the developer for the Bonne Bay project was not selected until September 2000, and the Fogo Island project will not go to tender before next spring, there has been no immediate requirement for the proceeds of the 19 investor units which are ready for closing. The Corporation will close these units as the tender call for the Fogo Island project approaches.*

## 3.21 Royal Newfoundland Constabulary

### Introduction

The Royal Newfoundland Constabulary was established in 1871. The mission of the Royal Newfoundland Constabulary is to work with communities in Newfoundland and Labrador to foster safe communities by providing quality, professional, accessible, timely and fair police services to all. The Royal Newfoundland Constabulary is responsible for policing three regions of the Province - the North East Avalon, Corner Brook and Labrador West. The population of these regions is approximately 205,000 (1996 census). In providing these services, the Royal Newfoundland Constabulary currently employs 310 police members and 79 civilian staff.

On 2 December 1997, a Select Committee of the House of Assembly was appointed to enquire into the arming policy of the Royal Newfoundland Constabulary, and report its findings to the House of Assembly by 31 March 1998. The Select Committee conducted research, viewed presentations by interested parties and held public hearings. The Committee tabled its report to the House of Assembly on 31 March 1998 which recommended that the arming policy of the Royal Newfoundland Constabulary be amended to permit its members on operational duty to wear sidearms as part of their regular uniform.

The Committee further recommended that the Chief of Police have discretion in the administration of the policy including discretion in assigning officers to operational duty. The Committee also recommended that police officers' sidearms be stored in a secure locker at the station when they are not on duty. The Committee further recommended that a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly, and that the arming policy be reviewed at the end of five years by a Select Committee of the House of Assembly.

As a result of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary, members on operational duty were permitted to wear sidearms commencing 14 June 1998. To provide specific direction to members on the control and usage of firearms, a revised Firearms Policy was also issued at this time. Figure 1 outlines the number of firearms maintained by the Royal Newfoundland Constabulary as at September 2000.

**Figure 1**

**Royal Newfoundland Constabulary**
**Number of Firearms**
**As at 26 September 2000**

| | St. John's | Corner Brook | Labrador West | Total |
|---|---|---|---|---|
| **Handguns** | 333 | 50 | 24 | **407** |
| **Shotguns** | 40 | 6 | 8 | **54** |
| **Rifles** | 98 | 16 | 6 | **120** |
| **Total** | **471** | **72** | **38** | **581** |

Source: Royal Newfoundland Constabulary Inventory System

In November 1999, we completed an audit of firearms at the Royal Newfoundland Constabulary. In our 1999 Annual Report to the House of Assembly we concluded that the firearms and ammunition inventory was not accurate and that required adjustments were not made on a timely basis. We also indicated that segregation of duties in the inventory system was not adequate to ensure that the firearms and ammunition inventory are adequately controlled.

In addition, we found that while the RNC's Firearms Policy was comparable to that of other Canadian jurisdictions, we did observe several instances of non-compliance. For example, some members did not always wear firearms while on operational duty as required by policy, monthly inspections of service firearms were not being conducted as required by policy and a significant number of members had not received their required firearm and/or use of force training.

## Scope and Objectives

One of the recommendations of the Select Committee on the Arming Policy of the Royal Newfoundland Constabulary was that a firearms audit acceptable to the Minister of Justice be performed annually and submitted to the House of Assembly. To comply with this recommendation, the Chief of Police has again requested my Office to conduct an annual audit of firearms in 2000. In November 2000 we completed our second annual review. The objectives of the review were to:

## 3.21 Royal Newfoundland Constabulary

- Determine whether the Royal Newfoundland Constabulary has adequate systems in place to record, monitor and secure its firearms inventory. This included determining, as recommended by the Select Committee, whether sidearms are stored in secure lockers at the station when members are not on duty.

- Determine whether the revised Firearms Policy covered all relevant issues pertaining to the use and control of firearms.

- Determine whether the Royal Newfoundland Constabulary has adequate procedures to monitor members' compliance with the revised Firearms Policy and where appropriate, test compliance with this Policy.

## Conclusions

**Control over Firearms and Ammunition**

The Royal Newfoundland Constabulary has established policies to provide for the management and control of its firearms and ammunition. In our 1999 review of inventory controls we concluded that, although there were weaknesses in the system, improvements had been made since our review in 1996. Our review in 2000 indicated that there are still weaknesses which require improvement. For example:

- The firearms and ammunition inventory is not accurate. For example, four firearms used for ceremonial purposes were not recorded in the inventory system, a number of firearms were located in a different physical location than that recorded in the inventory system and ammunition recorded in the inventory system did not always agree with the amounts on hand.

- Although the inventory system is a perpetual system (i.e. it is updated on an on-going basis), we determined that required adjustments, including acquisitions, dispositions and internal re-assignments of firearms and ammunition, are not always made on a timely basis. As a result, information on firearms and ammunition inventory is not always accurate and up to date.

## 3.21 Royal Newfoundland Constabulary

### Adequacy and Compliance of the Firearms Policy

Our review indicated that the Firearms Policy developed by the Royal Newfoundland Constabulary is comparable to that of other Canadian police jurisdictions and covered similar issues pertaining to the use and control of firearms. Our review of compliance with the Firearms Policy indicated that members are not always complying with policy. For example:

- Although policy requires that unloaded firearms be secured in the members personal firearms storage locker at the Royal Newfoundland Constabulary facilities or in other approved locations when the member is not on duty, this is not always done.

- Monthly inspections of service firearms are not being conducted as required by policy.

- In September 2000, the RNC amended its Firearms Policy to require that members store their pepper spray in their firearms locker. During the November 2000 inspection there were a significant number of instances identified where the pepper spray that should have been stored in the firearm storage locker was not. More importantly, it was very apparent that the change in policy that required members to store their pepper spray in their firearms locker was not well communicated to all members.

- A significant number of Royal Newfoundland Constabulary members have not received training in firearms and use of force so far this calendar year as required by policy.

Although Use of Force Reports are required to be prepared by members and reviewed by supervisors to monitor members' compliance with Firearms and Use of Force Policies, Use of Force Reports do not always contain all required information such as member name and type of force used.

In addition, Use of Force Reports are not always submitted to the Use of Force Review Board on a timely basis.

## 3.21 Royal Newfoundland Constabulary

### Findings and Recommendations

**Inventory Management**

The Royal Newfoundland Constabulary has developed inventory control procedures to provide for the proper management of its firearms. These policies include the assignment of responsibility for control of weapons, the maintenance of a perpetual inventory system, the requirement for annual inventory counts and reports thereon, and procedures to update the inventory system for acquisitions, transfers, dispositions and any required adjustments.

In our 1999 review of inventory controls we concluded that, although there were weaknesses in the system, improvements had been made since our review in 1996. Our review in 2000 indicated that there are still weaknesses which require improvement. For example:

- Although the inventory system is a perpetual system (i.e. it is continually updated), we determined that required adjustments, including additions, dispositions or internal re-assignments of firearms and ammunition, are not always made on a timely basis. As a result, information on firearms and ammunition inventory is not always accurate and up to date. For example, in September 2000, the RNC received 20,000 rounds of 9mm ammunition. As at 22 November 2000, this acquisition had yet to be entered into the inventory system.

- We tested the accuracy of the inventory listings for firearms and ammunition in St. John's by selecting a sample of physical inventory items and comparing this sample to the inventory system. We also selected a sample of firearms from the inventory system to ensure that the firearm was located where listed in the inventory system. During this testing we found that the inventory system is not accurate as outlined by the following instances:

    - There were 4 instances where firearms, used for ceremonial purposes, were not recorded in the inventory system. Three of these were already identified during our 1999 review. All four were finally recorded into the inventory system subsequent to the inventory count conducted by the RNC in April 2000.

    - There were 12 instances where firearms were located in a different physical location than recorded in the system. These firearms were, however, located in secure areas within Royal Newfoundland Constabulary facilities.

- There are 14 types of ammunition in the inventory system and we tested all 14 at St. John's. We determined that 5 physical counts did not agree to the amounts recorded in the inventory system and the differences could not be readily accounted for. Testing of ammunition also indicated 3 instances where the amount which a member physically had on hand did not agree to the inventory system.

- Although there is a central inventory system of firearms and ammunition maintained in St. John's, detachments in Corner Brook and Labrador also produce their own inventory listings. A review of the most recent listings available from Corner Brook and Labrador indicated 2 discrepancies between these lists and the central inventory system.

### Firearms Policy

The Royal Newfoundland Constabulary has developed a Firearms Policy to provide specific direction to members on the control and usage of firearms. Our review included a comparison of this policy with policies of other Canadian police jurisdictions. These jurisdictions included Halifax, Toronto Metro, Winnipeg, Brandon, Edmonton, Calgary, Vancouver, and New Westminster. We also reviewed procedures used by the Royal Newfoundland Constabulary to monitor members' compliance with the Firearms Policy which include inspections of firearms and firearms storage areas, review of reports prepared by members who have drawn firearms, and internal quality reviews over firearms. Where appropriate, we also tested compliance with this policy. Our review of these areas indicated the following:

### 1. Adequacy of Policy

Our review indicated that, in general, the revised Firearms Policy of the Royal Newfoundland Constabulary is comparable to that of the other Canadian police jurisdictions and covered similar issues pertaining to the use and control of firearms.

### 2. Compliance with Policy

A review of documentation maintained by the Royal Newfoundland Constabulary in monitoring compliance with the Firearms Policy, discussions with Royal Newfoundland Constabulary officials and testing of compliance with this Policy by my Office indicated that members are still not always complying with the Firearms Policy. For example:

## 3.21 Royal Newfoundland Constabulary

- The Firearms Policy requires unloaded firearms be secured in the members' personal firearms storage lockers at Royal Newfoundland Constabulary facilities or in other approved locations when the member is not on duty. To monitor compliance with this policy, the Inspections Officer or his designate at other detachments conducts a monthly inspection of the firearms storage lockers. Any infractions with this policy are reported to the District Inspectors or the Divisional Commanders to follow up with the members.

  A review of these monthly inspection reports indicate that while the detachments in Corner Brook and Labrador as well as the office in Mount Pearl have never reported any infractions with this policy, several of the inspections for the Patrol and Criminal Investigation Divisions in the St. John's detachment indicated some type of infraction. These infractions included instances where a firearm and/or ammunition was not stored in the locker even though the member was not on duty, stored firearms were loaded, and personal articles were stored in the firearms storage locker.

  In August 2000, we undertook an unscheduled inspection of the firearms lockers in St. John's and Mount Pearl. However, we were unable to examine the lockers at the St. John's Headquarters since a key could not be located to gain access to these units. This situation indicated to us that in the event of an emergency, there was no ready access to the service firearms.

  Our inspection at the Mount Pearl office indicated that the district was using a wooden structure with open storage space for each member to store their service firearms. As a result, all members assigned to this location have access to each others' firearms and ammunition. The wooden structure is located in a locked room. Furthermore, we were informed that a new, more secure, unit has been ordered. There were also 16 bullets on a shelf that could not be identified as belonging to a particular member.

  Also as part of our review, we attended the November 2000 monthly inspection for the St. John's detachment and its office in Mount Pearl. During this inspection, we observed nine infractions at the St. John's detachment similar in nature to those normally reported. For example:

  - There were two members who had each others firearm stored in his or her locker.

  - There were four members who did not have all of their assigned ammunition in their locker.

  - There were three members who did not have either their firearms or their ammunition stored in their locker. We were subsequently informed that these three firearms and the ammunition were stored on-site in a secure location.

  In September 2000, the RNC amended its Firearms Policy to require that members store their pepper spray in their firearms locker. During the November 2000 monthly firearms locker inspection which we observed, there were 111 instances out of 229 lockers examined where the pepper spray should have been stored but was not. More importantly, it was very apparent that the change in policy that required members to store their pepper spray in their firearms locker was not well communicated to all members.

- RNC policy requires firearm storage lockers be inspected on a monthly basis. Our review indicated that for three months in the past year, these monthly inspections were not performed for the St. John's and Mount Pearl offices. In addition to the monthly inspection of the storage of firearms, the Firearms Policy also requires the monthly inspection of the firearms themselves in accordance with guidelines established by the Inspections Officer. Our review indicated that, although these guidelines have been established, the monthly firearms inspections are not being conducted. This issue was identified in our 1999 review. The Inspections Officer indicated he or his designate examines all firearms assigned to members during the personal inspections. We were informed that during 2000, only one personal inspection of all members had been undertaken. This review was undertaken in October 2000; however, the Inspections Officer has yet to review the personnel and equipment inspection forms which are required to be prepared for each member and which are used to prepare the required report for the executive.

- The Firearms Policy requires that members requalify in both firearms training and use of force training annually. Presently, four modules of training are required to be provided annually. These include module 1 on firearms, module 2 on baton/defensive tactics, module 3 on tactical room entries, and module 4 on use of force continuum/survival stress. Our review of the annual firearms and use of force training indicated the following:

- While the policy requires the Use of Force Training Unit to prepare a list of members who have qualified in firearms training (module 1) and distribute this list to Divisional Commanders to ensure that the required training is provided, they could not provide us with such a list upon request. This listing was later produced but has not yet been distributed to the Divisional Commanders to ensure the required training is provided;

- 200 of the 305 members on the listing provided by the Use of Force Training Unit had requalified in firearms training (module 1) as of November 2000. Of the remaining 105, we were informed that the 20 members in Labrador West completed their training in December 2000. The Use of Force Training Unit indicated that they are trying to provide the module 1 training for as many of the other 85 members as possible before the end of calendar year 2000 as required by policy;

- 19 of the 305 members have never completed the basic one week use of force training as required by policy. Some of these 19 members are senior management members of the RNC; and

- 41 of the 305 members have completed modules 2, 3 and 4 of the use of force training thus far in 2000, although all members are required to complete this training annually. We were informed that the 20 members of the Labrador West detachment completed this training in December 2000.

As a result, a significant number of members have not requalified in firearms training and use of force training as at 22 November 2000 for the calendar year 2000 as required by RNC policy.

- The Firearms Policy requires that two, Remington Model 870, 12 gauge shotguns be contained in each Non Commissioned Officer vehicle for use in responding to certain threats. These firearms are to be removed at the end of each shift or during prolonged absences from the vehicle. Discussion with a number of these officers indicate that they do not carry these firearms in the trunk of their vehicle as these weapons cannot be secured in the current model of police vehicle. Instead, the firearm will generally be transported from headquarters to the required site by a Non

Commissioned Officer. This issue was identified in our 1999 report and has yet to be resolved.

- The Firearms Policy requires members to use loading/unloading ports that are located in firearms storage areas for the loading and unloading of firearms. As we were unable to observe this procedure, we could not determine whether members are complying with this policy. We do note, however, that the Tactics and Rescue Unit room is not equipped with a loading/unloading port although firearms are stored in this area.

- The Firearms Policy also requires that members be fully versed in the Use of Force Guidelines as outlined in the Use of Force Policy. These Guidelines provide guidance as to when it is appropriate to use force and the level of force required to be used in various situations. The Use of Force Policy requires that any time a member uses any type of force from simple restraint to discharging a firearm, a Use of Force Report must be filed.

  These reports are reviewed by the member's immediate supervisor, the District Inspectors and/or Divisional Commanders, Office of the Chief of Police, the Use of Force Training Unit and the Use of Force Review Board which has been established by the Royal Newfoundland Constabulary. Instances of force may also be reviewed by either the Public Complaints Commission or the Royal Newfoundland Constabulary's Internal Review Section upon the receipt of a complaint from a member of the RNC or the general public.

  Our review of this area indicated the following:

  - We have been informed that there was one complaint received by the Public Complaints Commission during the period from October 1999 to October 2000 regarding firearms. This complaint involved the improper storage of a member's firearm and was also referred to the Internal Review Section for investigation.

  - In addition to the incident referred to above, there were four other cases received by the Internal Review Section during the period October 1999 and October 2000 regarding firearms. These four were referred by the Chief of Police to the Internal Review Section and included two instances involving firearms and ammunition stored in the NCO office and two involved shootings by RNC members.

These latter two incidents were referred to the Internal Review Section in accordance with RNC policy which requires that all shootings be referred to them.

- A review of the Use of Force Reports indicated that there were 165 reported incidents of force between October 1999 and October 2000. Of these 165 incidents, 25 related to firearms of which, 3 involved animals, 20 involved drawing and/or pointing a firearm at a person and 2 involved shootings. These latter two incidents have, in accordance with RNC policy, been referred to the Ontario Provincial Police with which the RNC has a memorandum of understanding to conduct such investigations. One investigation has been completed and the other is still ongoing.

  Members of the Use of Force Review Board indicate that the Board reviews all Use of Force Reports when the reports are received from the Divisional Commanders. Although the Divisional Commanders are submitting these reports to the Board, the reports are not always submitted on a monthly basis as directed by the Chief of Police. For example, the reports from Districts A, B and C for April 2000 to mid August 2000 were submitted together in August 2000. Furthermore, District D did not always submit these reports on a monthly basis. As a result, the Board is not always receiving the Use of Force Reports on a timely basis.

- The Use of Force Policy requires that the Use of Force Review Board meet quarterly. Although this Board has not formally met since July 1999, the RNC maintains that the duties of the Board are still being carried out.

- A review of Use of Force Reports from October 1999 to October 2000 indicated that information required on these forms, including the type of force used, the member's name, and the reason why force was used, is not always being completed as required by policy. We also noted that, even though one of the most common types of use of force is handcuffing, there is no space designated on the Report to list this type of force. As a result, there may be insufficient information provided to enable supervisors and the Use of Force Review Board to assess the appropriateness of the use of force. We also found that in many instances the Use of Force Reports are not signed by the supervisors to indicate they have reviewed the reports.

- The Chief of Police has directed all Divisional Commanders to prepare a summary of statistics on the use of force on a monthly basis. A review of the summaries that were prepared indicated that they are not always being prepared on a timely basis and sometimes do not contain all relevant information that was contained on the Use of Force Report such as the member name, and in certain instances there was no indication of the type of force used. We also found that Divisional Commanders' interpretation of how to determine the number of uses of force resulting from an incident varies. As a result, statistics being accumulated on the incidents and types of use of force may not be accurate.

## Recommendations

*The RNC should take measures to further improve controls over its inventory of firearms, ammunition and pepper spray.*

*The RNC should comply with its Firearms Policy. For example, all unloaded firearms should be secured in the members personal firearms storage locker, monthly inspections of firearm lockers should be conducted, monthly inspections of the firearms themselves should be performed and all members should receive the required training.*

## Royal Newfoundland Constabulary's Response

### *Control over Firearms and Ammunition*

*The four ceremonial firearms in question were entered on the system in April 2000. Due to some members being involved in specialized investigations, firearms were not always stored at designated locations. The RNC concurs with the Auditor General and the noted members have been instructed to store their firearms in the designated areas as per policy. It should be noted, that the firearms in question, were always locked and secure, and in some cases protected also, by an alarm system.*

*Ammunition counts were not always in agreement with the counts on hand due to the new data entry operator not being totally familiar with the system. This has since been corrected.*

## 3.21 Royal Newfoundland Constabulary

*The RNC concurs updates to the Inventory System were not always made on a timely basis. Operational requirements, scheduled training sessions, leave, etc. may have contributed to late submissions, however, the RNC will endeavor to be more vigilant in timeliness of required adjustments.*

***Adequacy and Compliance of the Firearms Policy***

*As mention previously, members detected to be in non-compliance with the policy requiring members to store unloaded firearms in personal firearms lockers when not on duty, were duly noted and instructed to comply with policy immediately.*

*The RNC has a very ambitious and aggressive Inspections schedule. There are times, due to operational requirements, leave, scheduled training sessions, Scheduled Inspections may be delayed, however, the RNC recognizes the importance of Inspections, and will attempt to reduce/eliminate the delays.*

*The RNC recognizes that the communication of this policy change, pertaining to storage of pepper spray in firearms lockers, was obviously flawed and is working to correct this immediately.*

*The RNC has a very ambitious and progressive training program in Firearms and Use of Force. The RNC in this year of 2000, has trained or re-qualified approximately 240 members out of 310. Of those remaining to be done, 17 members are unable to train due to medical reasons and are classified as non-operational, and 12 are managers who are not assigned to front line duties.*

*The Use of Force Training Unit will continue to strive to ensure that all operational members are trained within the RNC's training standard.*

*The RNC recognizes certain logistical and scheduling problems associated with the operations of the Use of Force Review Board. It must, however, be emphasized that members of the Review Board are provided with copies of all reported incidents for their review and feedback.*

*Use of Force reports are reviewed by a) Immediate Supervisor, b) District Inspector, c) Divisional Commanders, d) Deputy Chief of Operations, e) RNC Legal Counsel, f) RNC Use of Force Trainer.*

## 3.22 Recruitment Delegation

### Introduction

**The Public Service Commission Act**

Section 5 of the Public Service Commission Act (the Act) provides for the establishment of the Newfoundland Public Service Commission, a three member commission appointed by the Lieutenant-Governor in Council. One of the members of the Commission shall be the Chairperson.

The Act requires that the Commission prescribe the standards and procedures for the recruitment and selection of candidates for appointment and promotion within the public service as defined by the Act. The Act specifically states that appointments or promotions are to be based on the merit principles. Merit principles require that candidates be assessed with fairness and equity so that the job will be awarded to the candidate most suitable for the position. Merit principles are the primary means to restrain or avoid political and public service influence over appointments and internal promotions. The Act allows the Commission to delegate appointments and promotions to a chief executive officer or Deputy Minister subject to a review by the Commission on an annual basis.

There are approximately 43,000 employees in the Newfoundland public sector. Of the 43,000 employees, 18,500 are in the health care sector, 13,350 are in the education sector, 8,400 are in Government departments, and 2,650 are at other Crown agencies.

The Act defines the public service to include only the departments of Government and 5 of the 82 Crown agencies. The remaining 77 Crown agencies are not required to comply with the Public Service Commission Act. For example, the Act does not apply to most of the Crown agencies including hospitals, community health boards, and school boards, and Memorial University of Newfoundland. Since the Public Service Commission Act was enacted in 1973, we do not know the rationale for the inclusion or exclusion of certain agencies.

Furthermore, for the departments and the 5 Crown agencies which are covered by the Act, the following positions are specifically excluded:

- contractual employees;
- temporary employees;
- seasonal employees;
- part-time employees;
- members of the Royal Newfoundland Constabulary;
- staff of Her Majesty's Penitentiary;
- barristers or solicitors;
- medical doctors and dental surgeons;

- employees covered by a collective agreement between the Crown, the Newfoundland Hospital and Nursing Home Association and the Newfoundland Association of Public Employees.
- deputy ministers, assistant deputy ministers and similar positions appointed by the Lieutenant-Governor in Council;
- staff of the Lieutenant-Governor's establishment;
- the Office of the Premier; and
- executive assistants, special assistants and other staff of ministers.

Section 17 of the Act requires the Chairperson of the Public Service Commission to make an annual report to the President of Treasury Board of the transactions and affairs of the Commission. The President of Treasury Board is required to table the annual report in the House of Assembly.

## Scope

We performed a review of the Public Service Commission in the area of recruitment. The overall objective of our review was to examine the legislative mandate of the Commission and assess whether adequate systems were in place to fulfil this mandate. Since the Commission has entered into agreements with each department and the 5 Crown agencies covered by the Public Service Commission Act relating to delegation of recruitment and staffing authority, our review focused primarily on how the Commission monitors staff appointments made by the various departments and entities under these authorities.

Our work included discussions with officials of the Commission and a review of information, agreements and reports at the Commission from its examination of the departments and agencies with delegated authority. We also visited a number of departments and obtained information on permanent and other categories of employees.

## Conclusions

Prior to 1 April 1997, the Public Service Commission was actively involved in the recruitment of staff for the government departments and 5 Crown agencies covered by the Public Service Commission Act. With effect from 1 April 1997 and in accordance with the Minute of Council issued in May 1996, the Commission entered into agreements with each entity covered by the Act relating to the delegation of recruitment and staffing. The Commission retained responsibility to review the appointments and promotions in these entities. Our review of this area indicated the following:

## 3.22 Recruitment Delegation

- Although there are approximately 43,000 employees in the Provincial public sector, the *Public Service Commission Act* applies only to 6,400 employees of Government departments and 5 Crown agencies. Furthermore, since the Act only applies to the recruitment of permanent employees and does not apply to the appointment of temporary employees, seasonal employees, and a number of other positions within the public service, only 5,277 of the 8,404 positions in the various departments of government are covered by the Act. As a result, the Act does not provide for consistency of recruitment within the entire public service.

  The *Public Service Commission Act* was enacted in 1973 and the organizations which fall within the jurisdiction of the Commission were defined at that time. Since 1973 there have been many changes in the organizations which comprise the public service. As a result, all Crown agencies and all positions within the entire public service should be reviewed to determine which ones should fall within the mandate of the Public Service Commission. Recruitment in the public service would be improved if the mandate of the Public Service Commission applied to all positions within the entire public service.

  The Commission is not complying with the *Public Service Commission Act* since it does not conduct annual reviews of the appointments and promotions at government departments and the 5 Crown agencies. Our review also indicated the following weaknesses in the reviews conducted by the Commission:

  - The reviews carried out by the Commission were based on information provided by each department or agency. The Commission did not perform any independent verification procedures to ensure that the information which it had received was complete and accurate relating to all appointments or promotions during the period.

  - The Commission did not retain adequate audit files supporting its work in reviewing appointments and promotions at government departments and the 5 Crown agencies.

  - The Commission is not receiving complete information on all recruitments and promotions occurring in the public service that fall within their responsibility.

## 3.22 Recruitment Delegation

- The Commission's work indicated that there are numerous problems in the recruitment process of certain departments and Crown agencies. Our review also indicated that many permanent positions, which fall under the jurisdiction of the Public Service Commission, are not permanently filled in accordance with the Public Service Commission Act but rather are occupied by other employees on a temporary basis, often for lengthy periods of time. As a result, these appointments do not fall under the jurisdiction of the Public Service Commission.

Our review also indicated the following:

- At the date of our review, September 2000, legislative amendments to the Public Service Commission Act as required by Cabinet Directive MC-96-0358 dated 22 May 1996, have not been made. These amendments would provide for the transfer of a number of personnel areas from the Public Service Commission to Treasury Board Secretariat. Although the transfer has occurred, there is no legislative authority since the amendments have never been made.

- The Public Service Commission is required by its Act to prepare annual reports for tabling in the House of Assembly. The reports of the Public Service Commission for 1996,1997 and 1998 years were not tabled in the House of Assembly within the required time frame. In May 2000, the report of the Commission for the period 1996 to 1999 was tabled in the House of Assembly.

## Findings and Recommendations

### Required Annual Review of Delegated Staffing Authority Agreements

Prior to 1 April 1997, the Public Service Commission (the Commission) was actively involved in the recruitment of staff for the government departments and 5 Crown agencies covered by the Public Service Commission Act (the Act). With effect from 1 April 1997 and in accordance with the Minute of Council issued in May 1996, the Commission entered into agreements with each entity covered by the Act relating to the delegation of recruitment and staffing. These agreements were issued in accordance with Section 13(2) of the Act and authorized the chief executive officer of each entity to exercise and perform the powers and functions of the Commission for the recruitment and selection of qualified persons to fill vacant positions. The Commission can withdraw delegated staffing authority granted to an entity if it determines that the entity is not complying with the policies of the Commission.

## 3.22 Recruitment Delegation

The authority was granted by the Commission and applied to all departmental positions covered by the Act except for certain specific positions such as Directors of Human Resources and Directors of Finance, which were identified in the agreements. The Commission retained responsibility for filling these types of positions. In addition, because certain positions, including appointments by the Lieutenant-Governor in Council, temporary positions and a number of other positions, are not covered by Act, they are not covered by the delegated staffing authority policies.

The agreements required that the staffing processes to be used by the government departments and the 5 Crown agencies would be those outlined in the Public Service Commission Personnel Selection Policies. These entities are required to ensure that all decisions made under authority of the agreements are consistent with the intent of approved policies, procedures and regulations of the Commission.

Each agreement requires the chief executive officer or Deputy Minister to accept responsibility for maintenance and protection of the merit principles. All related grievances and complaints, or other indication of concern with the integrity of job competitions must be brought to the attention of the Commission by the department or Crown agency. The Commission will then conduct a review and the Commission Chair will report to the Chair of the Selection Board and the employee.

The Act requires that delegated staffing authorities be assessed on an annual basis. While the Commission performed a review of permanent staffing competitions for each department and the 5 Crown agencies for the first six months of the delegation period, 1 April 1997 to 30 September 1997, it did not perform any further reviews of recruitment delegation until the 1999-2000 year. As a result, the Commission did not comply with the Act since delegated staffing authorities are not being assessed on an annual basis.

## 3.22 Recruitment Delegation

Staff of the Commission informed us that when they visited each department or agency the reviews which they performed were based on information provided by officials of each department or agency. Commission staff accepted the information provided by the departments and agencies and did not perform any independent verification procedures of the entity's payroll records to ensure that they had received and were aware of all appointments or promotions which were made during the period and, therefore, subject to audit. As a result, the Commission does not know whether the information provided for audit was complete and accurate.

Staff of the Commission informed us that they reviewed all files provided to them by the departments and 5 Crown agencies which related to competitions for permanent positions during the period 1 April 1997 to 30 September 1997. The reviews focused primarily on ensuring that the files, which they examined, and the competitions which they reviewed, complied with the directions and standards which have been established by the Commission.

Our review disclosed that the Commission did not maintain separate formal audit files to support all of its reviews of each department or entity for the period 1 April 1997 to 30 September 1997. One of the staff members of the Commission did maintain limited file notes and copies of some material relating to the entities which had been reviewed. The Commission did maintain copies of the various audit reports for each department and the 5 Crown agencies. However, these reports were based on notes made by the staff of the Commission at the time of the review and these notes were not retained in a formal file at the Commission offices as supporting documentation for the reports issued for departments and agencies reviewed. As a result, the Commission could not provide a listing of the competition files which it reviewed. Therefore, the Commission did not retain adequate audit files supporting the work which it performed in reviewing staffing actions taken by government departments and the 5 Crown agencies.

As indicated in Figure 1, the results of the reviews performed by the Commission demonstrated that there were numerous problems in the recruitment processes of certain departments and Crown agencies. The results of the Commission's reviews demonstrate that there is a need for departments and Crown agencies to improve compliance with the Commission's policies.

## 3.22 Recruitment Delegation

**Figure 1**

**Public Service Commission Reviews 1997**
**Issues Reported**

| Department or Agency | Issues Reported |
|---|---|
| Development and Rural Renewal | • All files did not clearly identify selection board members; and<br>• Re-deployment and re-employment transactions were insufficiently documented and misinterpreted. |
| Education | • Confidentiality statements were not in the files;<br>• Job analysis work sheets were not completed;<br>• Mandatory use of the re-employment priority list was a problem for temporary positions; and<br>• Emphasis needed to be placed on setting up and maintaining a log system and in completing documentation. |
| Government Services and Lands | • Board reports noted actual appointments rather than recommendations;<br>• Files did not clearly identify selection board members, their roles and positions;<br>• There was inconsistent use of confidentiality statements;<br>• Job analysis and matrix forms, copies of the evaluation tools (interview questions and preferred responses) were not present in all files;<br>• Re-deployment and re-employment priority transactions were insufficiently documented. Some re-employment priority recommendations were processed as routine competitions; and<br>• Screen out letters to re-employment priority candidates were not modified as required. |
| Health and Community Services | • Formal references were not done in a number of files because recommended candidates were known; and<br>• There was a weakness in the maintenance of the log system to record all personnel transactions. |
| Human Resources and Employment | • A numbering system had been established, however, it did not cover all personnel transactions;<br>• In a number of files references were not documented for all recommended candidates; and<br>• In another file there was no indication that candidates who were interviewed but not recommended were notified. |
| Justice | • A numbering system had been put in place but it did not cover all personnel transactions;<br>• While the human resource staff were current on Commission policies, other staff who had been trained in chairing selection boards, were not;<br>• One competition raised questions of compliance with the re-employment priority policy; and<br>• There was a problem with the numbering system relating to competitions. |
| Municipal and Provincial Affairs | • All files did not clearly identify the selection board members, their roles and permanent positions;<br>• There was inconsistent use of confidentiality statements;<br>• Job analysis and matrix forms and copies of evaluation tools were not present in all files; and<br>• Re-deployment and re-employment priority transactions were insufficiently documented. |
| Works, Services and Transportation | • Staff files were left out and not kept in a separate filing cabinet; and<br>• The selection board reports indicate the ranking as per the matrix scores and do not differentiate the reasons why one candidate was ranked higher than another. |

## 3.22 Recruitment Delegation

**Figure 1 (cont'd)**

| Department or Agency | Issues Reported |
|---|---|
| College of the North Atlantic | • There were no confidential support staff to manage the administrative detail of staffing<br>• There was no consistent form or consistent use of Request to Fill Vacancies or Staffing Requisition;<br>• Selection board reports did not sufficiently describe or substantiate the selection decision and did not clearly identify the board members;<br>• One candidate evaluated as weak was recommended for appointment;<br>• All recommendations did not list 3 candidates, even when at least 3 were evaluated to be recommendable;<br>• Staff who had not received adequate appropriate training had chaired selection boards;<br>• The identification system for staffing actions consisted of 5 separate and different systems and identified competitions rather than transactions;<br>• The late application policy was not strictly followed;<br>• Re-employment priority candidates were not listed on screening sheets;<br>• Screening sheets contained insufficient information;<br>• Job analysis forms were not completed;<br>• It was not clear where some internal advertisements were posted;<br>• Acknowledgment letters were not sent;<br>• Advertisements were not standardized;<br>• The closing dates policy was not applied;<br>• In one case the condition of employment stated that he continue his computer studies program;<br>• One file indicated an internal candidate was appointed but there was no indication of any applications;<br>• One position file indicated that there were no qualified candidates yet somebody had screened in at least five individuals;<br>• One file had no job analysis, no record of evaluation tools used or no references;<br>• The human resource staff had not attended workshops on chairing selection boards; and<br>• The clerical support staff needed further information concerning the administration, organization and maintenance of staffing files. |

### Monitoring Promotions in the Public Service

The Act requires that appointments to and promotions within the public service shall be based on the merit principles and made on processes designed to establish the merit of candidates. While the Commission is responsible for this, it does not receive sufficient information to ensure that departments and agencies are complying with the requirements of the Act. The Commission does receive the following information relating to appointments and promotions:

- **Classification Reports** - The Commission periodically receives copies of classification reports issued by Treasury Board Secretariat. We were informed by Commission staff that these reports are quickly reviewed and filed. There are no formal procedures in place to ensure that all classification reports are received by the Commission for review and there is no formal process in place for review, assessment and challenge of these reports. In addition, there is no formal process in place to conclude whether the classification action is a reclassification or a promotion. If the action is in fact a promotion then under the Public Service Commission Act there should be a competition for the position.

  A significant issue which arose during our audit concerns the reclassification of positions and the appointment of individuals to positions. We encountered a number of positions which had been reclassified to a much higher salary scale so that the position should be considered a new position. For example, in one case an employee was granted an increase in salary in excess of 30% as a result of a reclassification. We found that in many instances the positions were not advertised but were filled by the individual occupying the initial lower position. In our opinion, these should be considered as "promotions" in accordance with the merit principles and recruitment should have occurred through a competitive process designed to establish the merit of candidates.

- **Departmental Staffing Activity Status Report** - The Commission periodically receives staffing activity status reports from some departments and some of the 5 Crown agencies. These reports include information on job recruitment activity at each entity. The timing of receipt of these reports is not consistent for all departments and agencies and there is no process in place to ensure that the information contained in the reports is complete and accurate. In addition, there is no formal process in place to ensure that the Commission receives all of these reports on a timely basis and that the reports received are complete and accurate.

Our review indicated that the Commission is not receiving complete information on all recruitments and promotions occurring in the public service that fall within their responsibility.

## 3.22 Recruitment Delegation

Our review of the information provided by the Public Service Payroll System disclosed that the System's fields contain information relating to the employee promotion or appointment date. This information can serve as a basis for a report which can be produced each pay period for the Commission which shows all employees who were appointed or promoted during that period. The Commission can then use these reports to support its monitoring of any staffing actions on a timely basis.

### The Public Service Commission Mandate

Under the Public Service Commission Act one of the responsibilities of the Commission is to ensure that promotions within the public service are based on merit principles and are made through personnel selection procedures designed to establish the merit of candidates.

Figure 2 indicates that there are approximately 43,000 employees in the Provincial public sector. The Act, however, applies only to 6,400 employees of Government departments and 5 Crown agencies since it only applies to the recruitment of permanent employees and does not apply to the appointment of temporary employees, seasonal employees, and a number of other positions within the public service. Figure 2 provides information on the 6,400 employees.

**Figure 2**

**Public Sector Positions**
**March 2000**

| Category | Number of Staff in the Public Sector | Number of Staff Covered by the Public Service Commission Act |
|---|---|---|
| Health Care Sector | 18,467 | 0 |
| Departments | 8,404 | 5,277 |
| School Boards | 8,359 | 0 |
| Memorial University | 3,700 | 0 |
| College of the North Atlantic | 1,255 | 1,046 |
| Newfoundland and Labrador Hydro Electric Corporation | 1,275 | 0 |
| Other Crown Corporations (Under 1,000 employees) | 1,382 | 95 |
| Total Public Sector Positions (Approximately) | 42,842 | 6,418 |

Sources: Information received from Departments and public information on agencies.

## 3.22 Recruitment Delegation

As this figure shows, only 6,418 or 15 % of all public sector positions are covered by the Public Service Commission Act. Therefore, the Commission has no mandate to ensure that there is consistency in the area of staffing actions taken relating to 85% of the positions within the Public Sector. In addition, of the 8,404 positions in the various departments, the Public Service Commission Act covers only 5,277 or 62.8 %. Therefore, the Commission has no mandate to ensure that there is consistency in the area of staffing actions taken relating to 37.2 % of the positions within the various departments of government. As a result, the Act does not provide for consistency of recruitment within the entire public service. We are concerned that there are no consistent standards throughout the entire public service. Recruitment in the public service would be improved if the mandate of the Public Service Commission applied to all positions within the entire public service.

To determine whether departments were complying with the requirements of the Public Service Commission Act and advertise permanent positions, we analyzed the permanent positions of four government departments to determine whether the positions were filled permanently. Figure 3 indicates the results of our review.

**Figure 3**

**Position Information**
**31 March 2000**

| Department | Permanent Positions | Permanent Positions Occupied by Permanent Incumbent | Permanent Positions Occupied by Other Than the Permanent Incumbent | Position Owned and Nobody In It | Vacant Positions |
|---|---|---|---|---|---|
| Fisheries and Aquaculture | 92 | 71 | 12 | 7 | 2 |
| Forest Resources and Agrifoods | 464 | 369 | 60 | 21 | 14 |
| Mines and Energy | 113 | 89 | 17 | 3 | 4 |
| Works Services and Transportation | 1557 | 882 | 167 | 268 | 240 |
| Total | 2,226 | 1,411 | 256 | 299 | 260 |

Source: Position Administration System

## 3.22 Recruitment Delegation

Our review of permanent positions indicated the following:

- Permanent employees who occupy permanent positions are sometimes assigned to temporary positions at higher salaries and without competition. Since temporary positions do not fall within the mandate of the Public Service Commission, the Departments are not required to ensure that there is a competition for temporary positions. Rather, employees are often appointed directly to temporary positions without the benefit of competition.

- A significant number of vacant permanent positions are occupied by employees on a temporary basis thereby avoiding the requirement to advertise the position. In these instances, employees are appointed directly to the position, some for extensive periods of time without competition. Our review of the 4 Government departments outlined in Figure 3 identified 256 permanent positions which have been filled temporarily often without competition, one as far back as 1992.

As indicated in Figure 3, vacant permanent positions are being filled on a temporary basis and as a result these positions are often not filled through a competitive recruitment process based on merit. In addition, each department has a number of vacant permanent positions which should result in savings in the salary budget. However, departments are using these savings to fund temporary and contractual employees which do not require a competitive hiring process.

**Position Administration System**

Government payroll for 1999-2000 totalled $280 million. Given the significant amount of money spent on salaries, it is necessary to control the number of positions within Government and the related expenditures. Treasury Board Secretariat maintains a Position Administration System which was designed to list all approved permanent positions, and provide information on temporary positions, seasonal positions and contractual positions. The purpose of the System is to assist departments in managing their staff positions. Departments are responsible to ensure that the System is accurate and that it reflects their total employee positions. Departments are also responsible for ensuring that there are adequate controls over the hiring of employees and all payroll related transactions.

## 3.22 Recruitment Delegation

Since the *Public Service Commission Act* requires the Commission to monitor appointments and promotions in the public service, a system to control positions within Government would be invaluable in determining new appointments and promotions which would be subject to audit. However, our review of the Position Administration System identified errors and indicated that in a number of areas, the System did not accurately reflect the number of permanent positions approved by Government. The following summarizes some of the problems identified:

- Government's budget document for 1999-2000 (i.e. the Departmental Salary Details) indicated that there are 5,844 permanent positions for all Government departments. However, the Position Administration System indicates that there are 6,034 positions as at 31 March 2000, a net difference of 190 positions.

  Government's budget document for 2000-2001 indicated that there are 5,836 permanent positions for all Government departments compared to the 6,034 positions in the Position Administration System as at 29 March 2000, a net difference of 198 positions.

- As of 31 March 2000, the Position Administration System reported that approximately 1,000 positions were vacant, of which 600 were permanent positions. However, the Public Service Payroll System reported that approximately 800 individuals were paid using short-term temporary position control numbers and 20 individuals were paid without having any position control number. The positions occupied by these 820 individuals are not in the Position Administration System.

- There are inconsistencies in how position control numbers are used in some departments. For example, in the Department of Works Services and Transportation, many employees occupy different positions during the summer and winter seasons. In one region during the summer season, employees occupy permanent positions and are moved to seasonal positions in the winter season. Each permanent position and each seasonal position has its own unique position control number. In other regions of the Department, these employees occupy permanent positions in the summer season and are moved to short-term temporary positions in the winter season. However, these short-term temporary positions are not included in the Position Administration System. As a result, identical positions are treated differently in the Position Administration System.

- In one department there were six examples of cases where the Position Administration System reported two employees as active in the same position at the same time and where the System reported that employees were active in two separate positions. This demonstrates that the System is not controlling the positions in Government.

Given the problems identified, the Position Administration System is not providing the level of information needed to assist departments in the effective management and monitoring of positions and employees and as a result, the completeness and accuracy of the information contained within the System is questionable.

### Changes Required to the Public Service Commission Act

On 22 May 1996, Cabinet Directive MC-96-0358 directed that a number of the personnel areas assigned to the Commission under the Act be transferred to Treasury Board Secretariat. The Office of Legislative Council was directed to draft the necessary changes to the Act to enforce these changes. However, as at the date of our review the necessary amendments to the Act have not been tabled in the Legislature.

### Annual Report on the Work of the Commission

The Public Service Commission Act requires that the Commission must prepare, for the President of Treasury Board, an Annual Report of the transactions and affairs of the Commission. This Report must then be tabled in the Legislature within 15 days of receipt. The report of the Public Service Commission for the period 1996 to 1999 was not tabled in the House of Assembly until May 2000.

### Recommendations

- *The Public Service Commission should comply with the Public Service Commission Act and review annually any staffing actions taken under delegated staffing authorities.*

- *The Commission should ensure that the staffing information provided by each department or agency, as part of the audit process, is independently verified by reference to each entity's payroll records to ensure that the information which it has received relates to all applicable appointments or promotions during the period. In the case of departmental employees a report can be produced by the Public Service Payroll System each pay period indicating any appointments or promotions during the period.*

## 3.22 Recruitment Delegation

- *The Commission should establish policies and standards relating to the documentation which should be included in the files which support any reviews carried out to assess staffing actions taken under delegated staffing authorities. These files should include complete information supporting the reviews and should be retained by the Commission to support any reports issued.*
- *The Commission should, on an going basis, monitor staffing actions taken by departments and agencies relating to recruitment. This should include a formal system for reviewing, challenging or following up on staffing activity reports received on a timely basis.*
- *Recruitment in the entire public service should be subject to the same standards. Consideration should be given to expanding the mandate of the Public Service Commission to the entire public service.*
- *The Commission should request that the Public Service Commission Act be reviewed and that any amendments necessary as a result of changes made to the role of the Commission by Minute of Council 96-0358 dated 22 May 1996 be drafted for consideration by the Legislature.*
- *The Commission should comply with the Act and prepare for the Minister an annual report of the transactions and affairs of the Commission. This report should then be tabled in the Legislature in accordance with the Act.*

### Public Service Commission's Response

#### *Role of the Public Service Commission*

*The Public Service Commission Act was introduced in 1974 and a Commission was appointed to ensure the creation of a professional and non-partisan public service for Departments and Agencies scheduled to the Act. In the Commission's view, this has largely been achieved.*

#### *Required Annual Review of Delegated Staffing Agreements*

*The Commission agrees that it must comply with the Act pertaining to S.13(3): "Delegation shall be subject to review annually by the Commission in accordance with rules of procedure adopted by the Commission".*

## 3.22 Recruitment Delegation

*The Act itself does not specify a standard for review procedures, nor was a standard recommended by the Auditor General. Commission review procedures to date have been developmental by design: (ie) delegation of specific Commission functions to Chief Executive Officers required substantial orientation and educational support to departmental staff who would now be responsible for generating recommendations for appointments and promotions. The delegations and required supports were implemented concurrently. Reduced Commission resources delayed the completion of an annual review process. However, all delegations since April 1, 1997, have, in fact, been reviewed by Commission staff.*

*In accordance with the Auditor General's report, the Commission is currently reassessing and reorganizing its resources' allocation and programs. A revised review plan will be in place by end of Fiscal Year 2000/01 and will ensure at least annual cycle of delegation review and specific procedures to substantiate any findings, including Classification Reports and Delegated Staffing Authority Status Reports. In addition, the Commission will consult with Treasury Board to further clarify the importance of accurate data to support any of its programs.*

*The Act, by design when drafted, clearly extended the jurisdiction of application by scheduling the departments and appropriate agencies, and by listing specific employee categories and positions to be excluded. The jurisdiction is further defined to include only permanent appointments and promotions to permanent positions with the defined public service. While the Commission is not responsible for Temporary Employees, it does recognize that departments require temporary mechanisms for operational purposes and that such mechanisms may impact permanent staffing. The Commission will give further consideration to this issue.*

*It is noted in the enclosed table that 9 of the 26 scheduled entities are listed as demonstrating problems with staffing compliance in 1997-98, the first year of delegation. These noted technical and transactional problems were corrected.*

### *Changes Required to the Public Service Commission Act*

*Subsequent to the issue of MC-96-0358, a Committee of senior executives was established. This Committee considered and reported that all requirements of the MC could be accomplished without actual amendments to the Act. This was accepted as the course of action and no further legislative authority was deemed necessary.*

## 3.22 Recruitment Delegation

***Annual Report of the Work of the Commission***

*The Commission will comply with S.17 of its Act which requires the Chairperson to make an Annual Report to the Minister.*

***Mandate of the Public Service Commission***

*The Public Service Commission was put in place for the departmental public service where an institutional guardian was required to ensure professionalism and non-partisanship as the basic tenants of a modern public service.*

*The Auditor General has recommended that "Recruitment in the entire public service should be subject to the same standards. Consideration should be given to expanding the mandate of the Public Service Commission to the entire public service". There is no evidence provided by the Auditor General to support this recommendation.*

*Consequently, on the issue of whether a change in the mandate of the Commission is warranted, the Commission offers no comment.*

### Treasury Board Secretariat's Response

*The Secretariat believes that this system (the Position Administration System) has been and continues to be a very effective monitoring tool to assist government in the overall management and administration of positions and employees within government. Given the constant payroll changes in a complex organization such as ours, it is recognized that inconsistencies and inaccuracies in employee and position data will sometimes occur and Treasury Board has and will continue to conduct ongoing monitoring with departments as it relates to this data to ensure that government is maintaining maximum levels of efficiency and accuracy in these areas.*

## 3.23 Art Procurement

### Introduction

The Art Procurement Program was established by the Province in 1982 and is administered by the Cultural Affairs Division of the Department of Tourism, Culture and Recreation. The Program's mandate is to acquire original works of art by Newfoundland and Labrador artists for the enrichment and enhancement of public buildings in the Province. In addition, the Program's mandate includes providing support and encouragement for visual artists living and working in Newfoundland and Labrador and contributing to the cultural life of the Province.

Each year, Newfoundland and Labrador artists are publicly invited to submit a limited number of their works to the Art Procurement Program for possible acquisition. This art work is then viewed by an Art Procurement Committee and various pieces are selected for purchase within the approved Program budget. The Committee is comprised of an Art Collector, three practicing artists, and the Assistant Deputy Minister of the Cultural Affairs Division. The Art Collector and three practicing artists are selected by the Minister of Tourism, Culture and Recreation from listings submitted by the Arts Community and Gallery owners. Over the last two years, the Department has spent approximately $350,000 to purchase art work.

At 31 March 2000, the collection contained over 1,700 individual pieces of art work with an original cost of $1.6 million. This collection is displayed in Government departments and agencies throughout the Province as shown in Figure 1.

**Figure 1**

**Location of Art Work**
**Art Procurement Program**

| Location | Number of Pieces | % of Collection | Cost ($000's) |
|---|---|---|---|
| St. John's - Confederation Building | 795 | 44.5 | 805 |
| St. John's - Excluding Confederation Building | 463 | 25.9 | 379 |
| Eastern - Other | 20 | 1.1 | 11 |
| Central | 80 | 4.5 | 43 |
| Western | 187 | 10.4 | 104 |
| Labrador | 7 | .4 | 4 |
| On exhibit outside Province | 3 | .2 | 9 |
| In storage (includes purchases from 1999-00) | 147 | 8.2 | 176 |
| Location not identified | 86 | 4.8 | 81 |
| **Total** | **1,788** | **100.0** | **1,612** |

Source: Art Procurement Information System and list of 2000 purchases

## 3.23 Art Procurement

### Scope and Objectives

We completed our review in September of 2000. The objective of the review was to determine whether the art work acquired under the Art Procurement Program is properly managed and accounted for. We conducted our review in various departments and agencies throughout the Province. The review included examining a sample of 506 pieces of art work which represented approximately 28% of the collection.

### Conclusion

Our review indicated serious deficiencies in the management and control of art work acquired under the Art Procurement Program. In particular:

- Our examination of 506 pieces of art work determined that 102 pieces, at a cost of $106,463, could not be accounted for by officials of the Art Procurement Program. An additional 72 pieces of art, at a cost of $119,309, were located either in a different room or building from that identified by the inventory information system. The inventory information system also identified 16 pieces of art work, at a cost of $5,365, as lost.

  There is no process to report and record the movement of art work from its original assigned location. As a result, the information system which identifies the location of art work is not being accurately updated and art work can not always be accounted for.

- The location of acquired art work is not always documented in the information system. Furthermore, some of the art work that is documented in the information system is not recorded on a timely basis. This increases the difficulty of accounting for and adequately controlling this art work.

- Periodic physical counts are not conducted. In addition, no alternate procedures are performed to identify discrepancies between the physical art work and the location of the art work as identified in the information system.

- There is no regular conservation and maintenance process to reduce the risk of damage and deterioration to the collection.

Other observations over the management of art work included the following:

- Documentation with respect to the rationale for individual acquisitions is destroyed within 6 months of acquisition decisions. Authority for the destruction of these public records has not been obtained as required under the *Archives Act*.

## 3.23 Art Procurement

- Backup and recovery procedures for the inventory information system are not effective. In addition, controls over access to the inventory information system need improvement.
- There are no policies with respect to physical and accounting controls over art work.

## Findings and Recommendation

### Acquisition of Art Work

The collection represents art work acquired from 458 individual artists. As Figure 2 indicates, 218 or 48 percent of these artists have one piece of art work in the collection and an additional 140 artists or 31 percent have 2 to 4 pieces. Together, these two categories represent 79 percent of the artists and 21 percent of the cost of the collection. The collection also includes the work of 5 individuals who have contributed over 30 pieces each, representing 1 percent of the artists and 15 percent of the cost of the collection.

**Figure 2**

**Collection by Artist**

| # Pieces of Art Work | # of Artists | % Artists | Cost ($000's) | % Cost |
|---|---|---|---|---|
| 1 | 218 | 48 | 90 | 6 |
| 2 - 4 | 140 | 31 | 248 | 15 |
| 5 - 9 | 56 | 12 | 313 | 20 |
| 10 - 19 | 29 | 6 | 408 | 25 |
| 20 - 29 | 10 | 2 | 309 | 19 |
| 30 and over | 5 | 1 | 244 | 15 |
| **Total** | **458** | **100** | **1,612** | **100** |

Source: Art Procurement Information System

## 3.23 Art Procurement

### 1. The Acquisition Process

Whenever public funds are being used to purchase goods or services, the approach to assessing proposed acquisitions should be fair and transparent. In acquiring art work each year, the Art Procurement Committee travels to main centers in the Province, views the art work submitted and selects various pieces within the approved Program budget.

As guidance in selecting acquisitions, members of the Art Procurement Committee are provided with both the Program guidelines, approved in 1990 by Cabinet, and a copy of the 1996 Warren Report. The Warren Report was commissioned by the Minister of Tourism, Culture and Recreation in 1995 for purposes of reviewing the Art Procurement Program. This Report contains a number of recommendations for the selection of art work, one of which is that the artist must have resided in the Province for a period of twelve consecutive months prior to offering the art for acquisition. The Report also recommends that the emphasis in all acquisitions be on quality.

In reviewing the acquisition process, it was observed that documentation as to reasons for the various acquisitions is not maintained. Officials of the Art Procurement Program indicate that Committee members rate the art work and provide related comments on an assessment form but that these forms are destroyed within six months of the acquisition decisions. As a result, it was not possible for us to determine the rationale for acquisition decisions and therefore, the process was less transparent.

Furthermore, under the *Archives Act* destruction of such public records as these assessment forms is prohibited unless the destruction is recommended by the Public Records Committee and authorized by the Minister of Tourism, Culture and Recreation. Discussion with the Art Procurement Officer indicated that he was not aware of the requirements under the *Archives Act* and had not obtained any such approval.

### 2. Registration and Documentation of Acquisitions

A key control to safeguarding physical assets is the registration and documentation of basic information on each acquired asset, such as recording a unique identification number and the location of the asset. This process provides the means of identifying and locating individual items in the collection. The Art Procurement Program has a computerized information system which captures information such as the year the art work was completed, the medium, the name of the artist, the title of the art work, a unique identification number for each art work, the location of the art work and the cost. Our review of the information system and the process to register and document information on an acquisition of art work indicated the following:

- The inventory information system contains 70 pieces of art, valued at $75,844, for which no location has been documented. Discussions with officials of the Art Procurement Program indicated that this art work was in storage; however, a physical count of the art work in storage found that only 17 of the 70 pieces of art were actually in storage, 5 were found in other locations and the remaining 48 pieces costing $28,079 could not be accounted for by the Art Procurement Officer.

- Once a piece of art is acquired, it is supposed to be tagged with an inventory number assigned using numerical continuity. The system can then produce reports of missing numbers for follow-up and thus provide a control to ensure that all inventory is recorded in the information system. Our review of the information system, however, detected a number of gaps in the numerical continuity of assigned inventory numbers. As a result, the usefulness of using numerical continuity as a control in safeguarding the inventory is significantly reduced. During our inspection of art work, one piece of art work was examined which was tagged with one of the missing inventory numbers but the art work was not recorded in the information system.

- Although 139 pieces of art work were purchased in November of 1999 at a cost of $176,000, these items were not physically tagged with capital asset numbers until May of 2000. In addition, although this art work was distributed to departments in June of 2000, information to catalogue these items and record their location had still not been recorded in the information system as of September 2000. As acquisitions and their initial assigned location are not always being registered and catalogued on a timely basis, it increases the difficulty of accounting for and adequately controlling this art work.

- During our inspection of 506 pieces of art work at various departments and agencies, we examined 14 items which were not physically tagged with an inventory identification number. As a result, it was difficult to verify that the art work viewed was the same piece of art work as listed in the information system.

- The collection includes 152 pieces of art for which no cost has been recorded in the inventory information system. Our review of this art work indicated that the majority of these items were purchased in the 1950's, 60's and 70's. These acquisitions were prior to the establishment of the Program or were donated and therefore, cost information was not readily available. There are, however, 19 pieces of art that have been purchased in the mid to late 1980's but for which no cost has been recorded in the system. Officials of the Art Procurement Program indicated that two of these pieces of art were donated but could not provide an explanation as to why no cost was recorded for the remaining 17 pieces of art work. Complete and accurate cost information is necessary to accurately reflect the Province's investment in art work.

We also reviewed controls over the information system used to register and document information on acquisitions of art work. Our review indicated the following:

- The information system is maintained on a stand alone computer and is located in the office of the Art Procurement Officer. Access to the various computer applications is not controlled through the use of a password and therefore, if someone accessed the computer, they could also access and make changes to the information in the inventory system. The Art Procurement Officer indicated, however, that when he is not in his office, the door is locked at all times. Nevertheless, the use of a password that is changed on a regular basis would further reduce the risk of an unauthorized individual gaining access to the system.

- In addition to access controls, we also reviewed the controls designed to reduce the chance of a loss of information from the system due to a disaster such as a fire. Discussions with the Art Procurement Officer indicated that a copy of the information in the inventory system is maintained on a Government-owned computer at his residence and the information is updated on a regular basis.

  During our review, we were informed by the Art Procurement Officer that the information system recently crashed and that the information could not be retrieved or restored. Accordingly, the backup and recovery procedures do not appear to be effective.

- The same individual responsible for maintaining independent control over the inventory information system is also responsible for purchasing, receiving and monitoring the art work. Improper segregation of duties may result in errors or unauthorized transactions not being detected.

## Monitoring the Collection

A collection of art work is considered to be a moveable capital asset and as such, is susceptible to misappropriation or unintentional loss. In order to safeguard such assets, it is essential that adequate controls are in place to monitor their movement. Our review over this area indicated the following:

### 1. Physical Counts

A key element of an effective inventory monitoring system is the periodic physical count of the inventory to ensure that there are no discrepancies between the physical inventory count and the inventory recorded in the information system. Our review indicated that, with the exception of Government House, there have been no physical inventory counts performed in at least five years. Physical inventory counts at Government House have been conducted only on the request of officials of Government House and not officials of the Art Procurement Program.

Our review further indicated that there are no alternative verification procedures performed such as the circulation of listings from the inventory information system to be reviewed for accuracy by departments and agencies. As a result, discrepancies between the physical inventory and the inventory recorded in the information system will go undetected.

### 2. Movement of Inventory

Another key element of an effective inventory monitoring system is a formal process to capture information on the movement of inventory from its original assigned location. However, departments are not required to complete a form when transferring art work which would indicate its new location. Therefore, officials of the Art Procurement Program are not always aware of necessary adjustments to the inventory information system. Alternatively, departments have not been assigned responsibility for maintaining an up-to-date listing of changes in location of inventory assigned to their department. In summary, there is no system in place to facilitate the recording of transfers of art work between and within departments.

## 3.23 Art Procurement

Our review also indicated that roles and responsibilities for the management of art work after allocation to a specific department are not defined. For example, although officials of the Art Procurement Program provided us with a list of departmental contacts for this Program, this list was outdated with most of the contacts having retired or transferred to other departments. Discussion with departmental officials indicated that although most were generally aware of the Art Procurement Program, there was no designated Program contact in the department and they were not aware of any responsibilities under the Program, including reporting the movement of art work. Discussions with officials of the Art Procurement Program, however, indicated that once art work is assigned to a department, the responsibility for its management, including informing them of any changes in location, rests with the Department until the art work is returned to storage.

As roles and responsibilities for the management of art work are not defined and there is no process to capture information on the movement of inventory, required adjustments to the inventory information system are not recorded. As a result, the location of art work as identified by the inventory information system is not always accurate. This finding was supported by our selection of 299 samples from the inventory information system which were traced to the physical art work and 207 samples of physical art work which were traced to the inventory information system, for a total of 506 samples. The results of our testing indicated the following:

- 332 pieces of art were located as identified by the inventory information system.

- 72 pieces of art, at a cost of $119,309, were located either in a different room or building from that identified by the inventory information system.

- 102 pieces of art, at a cost of $106,463, as identified by the inventory information system could not be located by ourselves, the Department to which the art work was assigned or officials of the Art Procurement Program.

## 3.23 Art Procurement

Our examination of art work and a general review of the inventory information system also indicated the following:

- 16 pieces of art work, at a cost of $5,365, were identified by the inventory information system as lost. Discussions with officials of the Art Procurement Program indicated that he is unaware when this art work was established as lost but no recent resources have been put into locating this art work.

- 5 pieces of art work were examined that had been purchased through funds of a Crown Agency, Enterprise Newfoundland and Labrador Corporation. The functions of this Agency were combined with the Department of Development and Rural Renewal in 1996 but officials of the Department of Development and Rural Renewal could not provide a listing of art work that was transferred with the Agency and the related art work is not recorded in the information system.

- 5 pieces of art work were examined in storage that were not recorded in the inventory information system. Discussions with officials of the Art Procurement Program indicated that 2 pieces had been donated to the Program but no explanation could be provided for the remaining 3 pieces of art work.

- 3 pieces of art work were recorded as being on exhibit outside the Province; however, discussions with the Art Procurement Officer indicated that 2 of these pieces have been returned to the Province for over a year.

- The inventory information system has not been accurately updated to reflect restructuring of departments in recent years or the dissolution of certain Crown agencies. For example, art work is still assigned in the system to the Newfoundland and Labrador Development Corporation and the Economic Recovery Commission, both of which have been dissolved for a number of years.

The above observations, in conjunction with the lack of physical counts, reflect serious deficiencies in the management of the collection. These deficiencies increase the risk of art work being misappropriated or unintentionally lost without detection for an extended period of time.

### 3. Inventory Control Policies

There are no documented policies with respect to physical and accounting controls over art work. These policies would include such requirements as segregation of duties over inventory, periodic physical counts and recording inventory adjustments for transfers and dispositions on a timely basis. Such policies would provide consistent guidance to officials of the Art Procurement Program for the effective management of the art collection.

## Conservation and Maintenance

A regular conservation and maintenance process, including reframing, damage control and ensuring proper storage and lighting, would reduce the risk of damage and deterioration to the collection. Our review indicated that there is no process for assessing the condition of the collection on a regular basis. Officials of the Art Procurement Program informed us that maintenance is only performed when an instance comes to their attention as a result of their own observation when installing other art works or upon a complaint received from a department. During our inspection of art work, several instances were noted where departments and agencies had pieces of art work in storage in a closet or on a floor with other objects piled carelessly on the art work.

### Recommendation

*The Department should develop policies to control and account for the art work acquired under the Art Procurement Program. These policies should include requirements for periodic physical counts, a process to record the movement of art work, and a program for the regular conservation and maintenance of art work.*

### Department's Response

#### *Acquisition of Artwork*

*The criteria for acquisition is based on quality and affordability. It should be recognized that the 1% artists representing approximately 15% of the cost of the collection represent some of our longest standing, professional practicing artists in the Province.*

*The primary means to ensure transparency and integrity of the program is the qualified professional, arms-length jury process. The Art Procurement Committee members rate the art work and provide comments on an assessment form. However, the jury notes are not maintained as* *public record. To address the issues related to the maintenance of public records, the Department will refer the issue to the Public Records Committee. To better ensure transparency of acquisition decisions, a meeting of the Art Procurement Committee will be convened at the end of the deliberation process. Minutes of this meeting will be issued to clarify the decision making process and the rationale for decisions.*

*Items in the collection are valued at cost to the Art Procurement Program. Pieces acquired through donations are costed at zero. This accurately reflects the Program's investment in Art Procurement but does not represent its value. It would be inappropriate for the Department to assign values to donated or freely acquired items without valuing all items based on appraised value.*

### *Documentation and Monitoring of the Collection*

*The Art Procurement Program does not include all art work purchased by government departments and its agencies. With few exceptions, the Program is confined to art purchased through its juried assessment process. The Art Procurement Program is therefore not accountable for the acquisition, inventory or control of art purchased by other government departments and agencies. However, the Department of Tourism, Culture and Recreation will examine the requirement to develop a policy whereby art work being purchased or acquired by other departments may be considered by the Art Procurement Program for inclusion in its inventory.*

*The Art Procurement Program has grown beyond its capacity to manage such a large collection. Due to limited financial and human resources, an inventory of the entire collection has not been completed since 1996 and there exists a backlog of inventory to electronically register. To address the issues cited in the Auditor General's report regarding the registration and documentation of acquisitions, physical counts and movement of the inventory, the Department plans to develop and implement better inventory control mechanisms that include: (i) utilization of better computer tracking and inventory management software; (ii) a sequential tracking system for items in the collection; (iii) development and implementation of policies and procedures for use by departments regarding the treatment, placement, storage, movement and return of art work from the collection; (iv) back-up procedures; (v) a schedule for physical counts; and (vi) development and implementation of an operational plan for the management of the collection.*

### *Conservation and Maintenance*

*An assessment of the physical condition of art work will be made a part of the annual inventory process.*

## 3.24 Public Records

### Introduction

The management of public records is an important part of the administration of all entities which make up the public sector of the Province. It supports decision making, the delivering of programs, compliance with legislative requirements, the care, custody, control and retention of personal or other confidential records, and retaining each entity's corporate memory. It also ensures that records of enduring or historical value are retained in the Provincial Archives as part of the Province's historical documentation. Effective management of public records requires a clear definition of public records, a determination of the types of records which should be retained and the retention period, and a determination of the types of records which should be retained in the Provincial Archives.

Responsibility for records management rests with the Department of Tourism, Culture and Recreation. The *Archives Act* establishes the Provincial Archives of Newfoundland and Labrador and creates the Records Management Branch of the Department of Tourism, Culture and Recreation. The role of the Branch is to counsel the departments in management and preservation of their records, develop a uniform file classification system, be responsible for the Provincial Records Centre and give effect to a disposal schedule established under the *Act*. Public records include all forms of records including electronic records created by and stored on various types of computers. The *Act* applies to all departments of government and all agencies of Crown including all hospital boards, community health care boards, the College of the North Atlantic, all school boards, and all Crown Corporations.

Section 7 of the *Archives Act* creates the Public Records Committee and provides that its duties include establishing and revising disposal schedules for the retention, destruction or transfer of records, and making recommendations to the Minister regarding the disposal of public records that are no longer required by a department or agency.

Section 11 of the *Archives Act* prohibits the destruction or disposal of public records unless authorized by the Minister on the recommendation of the Public Records Committee. Therefore, a department or agency of the Crown must have in place a system of adequate control over, and safe storage of, all records until they have been approved for disposal.

Section 9 of the *Financial Administration Act* provides among other things, that Treasury Board may make regulations respecting the retention and disposal of records. However, no regulations have been put forward to Treasury Board for approval.

## 3.24 Public Records

### Scope

We performed a review of public records held by departments and agencies of the Crown. The overall objective of our review was to assess whether the Records Management Branch of the Provincial Archives and the various departments and agencies of the Crown are complying with all of the legislative responsibilities, requirements and mandates relating to public records and to assess whether there are adequate systems of control in place to ensure compliance with legislation. Our review included an assessment of the work of the Records Management Branch in providing assistance, advice and direction to departments and agencies of the Crown. We completed our review in November 2000.

### Conclusions

As a result of our work we have concluded that records management in Government is not adequate. For example:

- The Records Management Branch is not providing adequate direction and advice to the majority of agencies of the Crown for the administration of public records as required by the *Archives Act*.

- The Records Management Branch is not disposing of inactive records in a timely manner. Of the 14,000 boxes of inactive records stored at the Records Centre, in excess of 9,500 boxes have passed their planned disposal date.

- Although the Records Management Branch could provide information on the age of the 14,000 boxes of inactive records stored at the Records Centre, it did not have any information available on the status of the 40,000 boxes of records stored in other Government buildings and outside private storage facilities. As a result, there was no information as to how many of the 40,000 boxes of records could be disposed of.

- Discussions with senior officials indicated that information on the number of boxes of records in storage at school boards, health care boards, and the College of the North Atlantic was not readily available. These agencies do not have contact with the Records Management Branch and generally retain records by division or location and do not have a system in place to provide an accurate number of the boxes of inactive records within their entity. Most entities informed us that the storage of inactive records is now a major problem for their organization.

- Although the Records Management Branch has developed an Information Management System for Administrative Records as required by Cabinet directive, it has not fully complied with the direction of Cabinet because it has not issued any policies or directives relating to operational records or computerized records. Only two departments have entered into agreements with the Provincial Archives respecting the implementation of the Information Management System for Administrative Records.

## Detailed Findings

### Legislative Requirements

The *Archives Act* provides that each department or agency of the Crown has ownership of any public records which it produces and cannot destroy these records without the authority of the Minister of Tourism, Culture and Recreation. The *Act* also requires that the Records Management Branch must counsel departments and agencies of the Crown in the management and preservation of their records, develop a uniform file classification system and be responsible for a Provincial Records Centre.

We interviewed the Provincial Archivist, the staff of the Records Management Branch, representatives of the various departments and agencies of the Crown, including the various health care boards, community health care boards, schools boards, the College of the North Atlantic and other agencies of the Crown. We attempted to determine whether the Records Management Branch was providing adequate direction and advice to the various departments and agencies of the Crown.

Our work disclosed that while the Branch has some contact with departments and certain agencies of the Crown relating to specific issues on the storage of records, it provides very little direction and advice to these entities. This communication is generally in response to an inquiry or in relation to disposals, and is not provided in a proactive manner. In addition, the Records Management Branch has not initiated contact with most agencies of the Crown including the various hospitals and health care boards, the various school boards, the College of the North Atlantic and the other agencies of the Crown.

## 3.24 Public Records

The agencies which do not communicate with the Records Management Branch have not received support, direction or advice relating to the care and custody of the records which they create either from the Records Management Branch or from the department with which they are associated. In general, these entities are not aware of the requirements of the *Archives Act* and are unsure as to whether they are covered by the legislation. As a result there are inconsistencies in the methods used by these entities in the safeguarding and retention of public records. Unfortunately this has resulted in a complete lack of direction and consistency in the custody and retention of public records in the hands of these entities.

Therefore, the Records Management Branch is not fulfilling its mandate as required under the *Archives Act* because it is not providing adequate direction and advice to Government departments and the majority of agencies of the Crown.

Our review disclosed that the Records Management Branch is not disposing of records maintained at the Centre in a timely manner. Of the 14,000 boxes of records stored at the Centre in excess of 9,500 boxes have passed their disposal date. Figure 1 presents a listing by department or agency of records stored at the Records Centre at 31 March 2000 and the number of boxes which have passed their disposal dates.

**Figure 1**

**Boxes of Public Records Stored at the Provincial Records Centre As at 31 March 2000**

| Department | Records Stored | Records past disposal date |
|---|---|---|
| Development and Rural Renewal | 772 | 652 |
| Education | 1,580 | 851 |
| Environment and Labour | 480 | 354 |
| Executive Council | 308 | 227 |
| Finance | 100 | 100 |
| Fisheries and Aquaculture | 269 | 230 |
| Forest Resources and Agrifoods | 208 | 155 |

**Figure 1 (cont'd)**

| Department | Records Stored | Records past disposal date |
|---|---|---|
| Government Services and Lands | 307 | 133 |
| Health and Community Services | 1,648 | 1,552 |
| Human Resources and Employment | 5 | |
| Industry, Trade and Technology | - | |
| Justice | 4,704 | 2,480 |
| Legislature | 1 | 1 |
| Mines and Energy | 31 | 11 |
| Municipal and Provincial Affairs | 1,278 | 1,165 |
| Newfoundland and Labrador Computer Services Limited | 113 | 96 |
| Newfoundland Liquor Licensing Board | 119 | 116 |
| Office of the Auditor General | 498 | 463 |
| Public Service Commission | 801 | 379 |
| Tourism, Culture and Recreation | 373 | 282 |
| Works, Services and Transportation | 508 | 351 |
| **Total** | **14,103** | **9,598** |

Source: Provincial Archives of Newfoundland and Labrador - Records Management Branch

Our review disclosed that entities which have contact with the Records Management Branch have approximately 54,000 boxes of records in storage. As shown in Figure 2 these include the 14,000 boxes stored at the Records Centre, the 29,000 boxes stored in space owned by Government departments and agencies of the Crown, and the 11,000 boxes stored in privately owned facilities. Although the Records Management Branch could provide information on the age of the 14,000 boxes of inactive records stored at the Records Centre, it did not have any information available on the status of the 29,000 boxes of records stored in other Government buildings and 11,000 boxes of records stored in outside private storage facilities. As a result, there was no information at the Records Management Branch as to how many of the 40,000 boxes of records could be disposed of.

# 3.24 Public Records

## Figure 2

### Boxes of Public Records In Storage
### Entities which have contact with the Records Management Branch
### As at 31 March 2000

| Department | Records Centre | Other Government Buildings | Outside Private Storage | Total |
|---|---|---|---|---|
| Development and Rural Renewal | 772 | | 1,643 | 2,415 |
| Education | 1,580 | 1,052 | | 2,632 |
| Environment and Labour | 480 | 587 | | 1,067 |
| Executive Council | 308 | 1,500 | 440 | 2,248 |
| Finance | 100 | 1,500 | 435 | 2,035 |
| Fisheries and Aquaculture | 269 | 439 | | 708 |
| Forest Resources and Agrifoods | 208 | 750 | | 958 |
| Government Services and Lands | 307 | 998 | 3 | 1,308 |
| Health and Community Services | 1,648 | 3,900 | | 5,548 |
| Human Resources and Employment | 5 | 4,000 | | 4,005 |
| Industry, Trade and Technology | - | 111 | 891 | 1,002 |
| Justice | 4,704 | 3,140 | 3,500 | 11,344 |
| Legislature | 1 | - | | 1 |
| Mines and Energy | 31 | 185 | 184 | 400 |
| Municipal and Provincial Affairs | 1,278 | - | 1,261 | 2,539 |
| Newfoundland and Labrador Computer Services Limited | 113 | - | | 113 |
| Newfoundland Liquor Licensing Board | 119 | - | | 119 |
| Office of the Auditor General | 498 | | | 498 |
| Public Service Commission | 801 | | | 801 |
| Tourism, Culture and Recreation | 373 | 1,323 | | 1,696 |
| Works, Services and Transportation | 508 | 3,000 | | 3,508 |
| Medical Care Commission | | 186 | | 186 |
| Newfoundland and Labrador Housing Corporation | | 5,000 | | 5,000 |
| Newfoundland Liquor Corporation | | 400 | | 400 |
| Workplace Health and Safety Commission | | 800 | 3,000 | 3,800 |
| **Total** | **14,103** | **28,871** | **11,357** | **54,331** |

Source: Records Management Branch and the various departments and agencies of the Crown

## 3.24 Public Records

We contacted the various agencies of the Crown which do not have contact with the Records Management Branch. These include the various health care boards, school boards and the College of the North Atlantic to determine the volume of records stored by their entity. Our review disclosed that these boards have various types of inactive records stored in many of their locations throughout the Province. In general, these records are stored at each individual hospital, facility, school, or individual location and there is no system in place to provide an accurate number of the boxes within each board or agency. Therefore, information relating to the volume of records held by these entities is not readily available. However, most entities informed us that the storage of inactive records is now a major problem for the organization. We also found that there was no general formal retention policy relating to the various types of records.

### Electronic Records

With the increased use of information technology the business of government is now being conducted through the use of computers. Our work disclosed that the various departments and agencies of the Crown have not been provided with any specific policies or directions on how to control public records in electronic format, how long to retain these records, and how to dispose of them if necessary.

Our review disclosed that the Provincial Archives does not have any analysts with the background, experience and expertise to provide support and advice in the area of electronic records. In addition, Treasury Board Secretariat, which is responsible for Information Technology Management has not provided any direction to the various departments and agencies of the Crown relating to control and retention of public records in electronic format. Therefore, each department and agency of the Crown has been left without direction respecting the custody and control over electronic records generated by the entity. Because of this lack of direction, in many cases, employees of these departments and agencies of the Crown, do not appreciate that the electronic records which they generate are public records and are covered by the *Archives Act*. This is a major concern which may eventually lead to the loss of valuable public records.

## 3.24 Public Records

### Public Records Committee

The *Archives Act* created the Public Records Committee and provides that it may:

- establish and revise disposal schedules for the retention or disposal of public records;
- make recommendations to the Minister relating to the disposal of records; and
- make recommendations to the Minister relating to the disposal of records in the archives collection.

When boxes are placed in storage at the Records Centre, they are designated a proposed disposal date. When that date occurs, the Records Centre is required to inform the department and request approval in writing to proceed with the destruction of the records. The department then provides a request to the Committee to dispose of the records. If the Committee agrees with disposal, it recommends approval to the Minister. If the Minister approves the records for disposal, the records are reviewed by the Provincial Archivist before they are released for disposal.

When a department or agency of the Crown stores its own records it can obtain authority to dispose of these through direct disposal. The process is initiated by the department or agency when these records have reached their disposal dates. The department or agency is required to provide a request to the Public Records Committee to dispose of the records. If the Committee agrees with disposal, it recommends approval to the Minister. If the Minister approves the records for disposal, the records are reviewed by the Provincial Archivist and those which are not of enduring value are destroyed by the department or agency of the Crown.

Our review disclosed that the Records Management Branch is not disposing of inactive records stored at the Record Centre in a timely manner. This has resulted in an accumulation of inactive records that are currently stored at the Provincial Records Centre, Government buildings and outside private storage.

# 3.24 Public Records

## Development of a Uniform File Classification System

In March 1999 the Provincial Archives issued the Information Management System For Administrative Records (IMSAR). IMSAR is an integrated records classification system and retention and disposal schedule. However, it is important to emphasize that IMSAR provides direction relating to administrative records only, it does not provide any direction relating to operational records.

IMSAR provides Government with a standard to apply to its organization, retention, and disposal of administrative records. Departments are required to establish internal procedures to authorize the systematic, secure and timely disposal of administrative records. Prior to implementation of the IMSAR departments are required to enter into an Implementation Agreement with the Provincial Archives. At the time of our audit, only two departments had entered into agreements with the Provincial Archives for the implementation of IMSAR. These were the Department of Human Resources and Employment and the Department of Justice. In addition, the Provincial Archives is working with the Department of Forest Resources and Agrifoods respecting one part of the IMSAR program.

In 1995, Cabinet directed the Department of Tourism, Culture and Recreation to develop internal policy guidelines for records maintenance systems in government and to include reference to computerized records. While the Provincial Archives has issued the Information Management System for Administrative Records (IMSAR) which relates only to administrative records, it has not issued any policies or directives relating to operational records or to computerized records. Therefore, the Department has not fully complied with the direction of Cabinet.

## Recommendations

*The Records Management Branch should:*

- *Counsel all departments and agencies of the Crown in the management and preservation of their records, develop a uniform file classification system and ensure that there is consistency in practices and controls over the care, custody, retention and disposal of public records held by these entities.*

- *Ensure that inactive public records held by all departments and agencies of the Crown are retained under proper systems of control, adequately safeguarded, and properly disposed of in a timely manner.*

- *Ensure that inactive records stored at the Provincial Records Centre are disposed of in a timely manner.*

- *Ensure that the Information Management System for Administrative Records is implemented by all departments and agencies of the Crown.*

- *Fully comply with the direction of Cabinet and provide direction to all departments and agencies of the Crown respecting the care, custody, control, retention and disposal of operational records and computerized records.*

**Department's Response**

*The report puts too much weight on a "box count" when measuring the entire information management situation in government. While the large numbers of boxes in storage are indicative (symptomatic) of the overall situation, it, alone, is not the entire extent of information management.*

*In the context of limited budgetary and human resources to implement a comprehensive records management system, PANL has sought to make limited strategic advances in records management:*

- *IMSAR was a significant (2 year) undertaking and the limited implementation is primarily a result of having to ensure that departments are ready to implement, and not having the resources either at PANL or in the departments to implement more extensively.*

- *E-mail is being worked on (again, a significant initiative which has taken a year and has involved the ITM Division of Treasury Board), and should be released by early in the new fiscal year.*

- *ODI funding has been sought and acquired for three years - first to undertake the review by Goss Gilroy, then, for the past two years, to hire an Information Policy Analyst who currently provides advisory services to the Department of Fisheries and Aquaculture as well as developing policy at PANL.*

- *Over 400 boxes have been removed from the Records Centre in a concerted effort to clear out those which are past due.*

- *The Records Management Course was taught seven times this past year in Gander, Grand Falls, Corner Brook and Happy Valley-Goose Bay as well as in St. John's*

*The audit report has misjudged the potential to develop a single operational classification and retention schedule which would serve the needs of all of government in the way IMSAR does.*

*While a single records classification and retention schedule for administrative records can be developed for use across government, because all administrative records are essentially the same across government (eg., records relating to human resources, finance, information technology), operational records (those which are distinct in each program or functional area) must be dealt with on an individual departmental or even divisional basis. Therefore, the development of operational classification and retention systems is a very time-consuming and labour intensive exercise.*

*The financial and human resources to implement a centralized approach to records management, has obviously not been available. Therefore, the approach taken by the Department of Tourism, Culture and Recreation has been:*

- *departments and agencies are responsible for adhering to the legislation*
- *the Records Management branch responds to requests for advice as they may arise*
- *storage of boxes is the responsibility of departments and agencies beyond the physical capacity of the Records Centre; and*
- *improvements in centralized policies and procedures are done within available financial and human resources.*

## 3.25 Government Air Services Division

**Introduction**

The Government of Newfoundland and Labrador Air Services is a division of the Department of Works, Services and Transportation. Air Services is responsible for the operation and maintenance of a fleet of 11 aircraft (2 air ambulances, 1 fire spotter and 8 water bombers). The Air Services Division is also responsible for the co-ordination and monitoring of a Government contract which charters five helicopters and the procurement and monitoring of any other helicopter and fixed wing charters. As indicated in Figure 1, the cost to operate this Division of the Department was $9.1 million in 1999-2000 and includes all costs associated with the air ambulance program. In addition to the $9.1 million, Government departments spent $5.8 million in 1999-2000 for helicopter and fixed wing charters.

All costs related to the operation of the air ambulance and water bombers are covered by Air Services budget. Charter costs are incurred by the department authorizing that particular charter. While the costs of providing air ambulance services and water bombers services may be charged to the Air Services Division, much of the control over decision making rests with other departments and agencies. In the case of air ambulance, the Department of Health and Community Services along with the hospitals authorize all air ambulance flights. The use of the water bombers and fire spotter is directed by the Department of Forest Resources and Agrifoods during the fire season.

**Figure 1**

**Air Services Division**
**Expenditure and Revenue**
**31 March**
**($ millions)**

| Activity | 1997/1998 | 1998/1999 | 1999/2000 |
|---|---|---|---|
| Expenditures - Government operated aircraft | 7.5 | 7.5 | 9.0 |
| Expenditures - Administration Hangar facilities | .7 | .7 | .8 |
| Revenue-Federal | - | (.2) | (.2) |
| Revenue-Provincial | (.4) | (1.0) | (.5) |
| **Total Net Operating Cost** | **7.8** | **7.0** | **9.1** |

Source: Consolidated Revenue Fund 31 March 1998, 31 March 1999, 31 March 2000

## 3.25 Government Air Services Division

As at 31 October 2000, the Province owned 11 aircraft as presented in Figure 2.

**Figure 2**

**Provincially Owned Aircraft**

| Aircraft Type | Number of Aircraft | Class | Function | Designated Location |
|---|---|---|---|---|
| King Air 100 | 1 | Fixed Wing | Air Ambulance | Storage - St. John's |
| Super King Air 350 | 1 | Fixed Wing | Air Ambulance | St. John's |
| Cessna 337 | 1 | Fixed Wing | Fire Spotter | St. John's |
| CL215 - Water Bombers | 6 | Fixed Wing | Water Bombers | (2) Gander<br>(1) St. John's<br>(1) Goosebay<br>(1) Wabush<br>(1) Deer Lake |
| CV14 - Canso Water Bombers | 2 | Fixed Wing | Water Bomber | Storage - Gander |
| **Total** | **11** | | | |

Source: Air Services Division, Department of Works, Services and Transportation

On 27 July 2000, Government announced its plans for regionalization of government services. All government air services, excluding the Province's air ambulance service, will be relocated to Gander. The relocation is scheduled to be completed by 30 June 2001.

### Scope and Objectives

We completed our review of the Air Services Division in October 2000. The objectives of our review were to:

- identify the policies and procedures in place to effectively plan for the air transportation needs of the Province;
- determine whether there are adequate systems and procedures in place for the acquisition and disposition of Government-operated aircraft;

- determine whether there are adequate systems and procedures in place for the maintenance of Government-owned aircraft;
- assess the adequacy of information systems used to manage government aircraft services;
- determine whether there are adequate systems and procedures in place to monitor aircraft utilization and control associated costs; and
- assess compliance with relevant legislation.

## Conclusions

The Air Services Division of the Department of Works, Services and Transportation is responsible for the operation and maintenance of a fleet of 11 aircraft consisting of 2 air ambulances, 1 fire spotter and 8 water bombers. It is also responsible for chartering helicopters and fixed wing aircraft for all government Departments. The cost to operate this Division in 1999-2000 was $9.1 million. Government departments also spent $5.8 million in 1999-2000 for helicopter and fixed wing charters.

**Aircraft Acquisition and Disposal**

In June 2000 Government Air Services Division replaced the existing air ambulance with a King Air 350 aircraft at a total cost of $4.95 million. We asked the Department of Works, Services and Transportation to provide us with their assessment of the options they examined to replace the King Air 100 along with the financial implications of each option. Several months after our initial request, information was provided.

When two new CL215 water bombers were purchased in 1995, two CV14 Canso water bombers were placed in storage to be used as back up to the existing fleet. Air worthiness maintenance was discontinued in 1997 and the two aircraft were grounded. In 1999 Air Services determined that the two aircraft had deteriorated to the point that it was no longer cost effective to refurbish them. We note that a water bomber had to be leased during the 1999 fire season at a cost of $275,000. In addition, the Department sold two other CV14 Canso water bombers in 1996 for a total of $427,000. At the time of our audit, the two Canso water bombers remain in unheated storage and there has been no action taken to dispose of the obsolete aircraft.

## 3.25 Government Air Services Division

### Inventory Management System

The inventory at Air Services, valued at approximately $3 million, is not properly controlled. Of this total, $2.5 million is located at the St. John's hangar and $500,000 of small usable parts and obsolete Canso inventory is located in the Gander hangar.

### Management of Aircraft Costs

Air Services Division is currently not utilizing Government's Financial Management System to identify the costs of operating each individual aircraft. As a result, there is no comparison and analysis of these costs over time, between aircraft, by hours flown and to industry standards. Such information is necessary to manage the aircraft and make informed decisions.

Since there is no system being used to identify the costs of operating each individual aircraft, total costs by aircraft type are determined manually by Air Services. This information is used to support the amounts charged to users of the Government aircraft. Our review of the hourly rates charged by the Air Services Division indicated that, although the cost information is used to calculate an hourly rate, an arbitrary amount is added to this rate in determining the hourly rate to be charged to users. Furthermore, since the current system for the accumulation of costs produces information that contains errors and the overhead allocations cannot be supported, the amounts being charged are not accurate.

Air Services enters into contracts to provide maintenance services and to lease its water bombers to third parties. Air Services could not provide us with sufficient financial information to support their rationale for contracting its aircraft and other services to other jurisdictions and third parties. Furthermore, the Division did not have adequate information to show the final results of its contract work. As a result, the Division does not know whether these contracts were financially beneficial to Government.

In accordance with the *Financial Administration Act* and Government policy, all expenditures must be charged to expenditure accounts, for which funding has been approved by the House of Assembly. For the past three years, the Division has been charging expenditures to its revenue accounts, which contravenes the *Financial Administration Act*. In 1999-2000, the Department effectively overspent its travel and supplies funding by $117,900 by charging this amount to revenue accounts.

## 3.25 Government Air Services Division

**Aircraft Operations**

Air Services is responsible for the operation and maintenance of the six Government-owned water bombers, the Government-owned air ambulance, and the Cessna spotter plane. The Division also co-ordinates and monitors aircraft chartered from a number of private/public companies. In 1999-2000, $1.161 million was spent by Air Services chartering aircraft for air ambulance flights and $5.8 million was spent by departments on chartering flights for departmental use. There is a significant lack of control over the use of these aircraft. For example:

- There was a lack of information on passengers who travelled on the Government-owned Cessna, the Government-owned water bombers, and departmental charters of helicopters, fixed wing aircraft and air ambulance flights which are obtained from a number of companies. Furthermore, we found inconsistent documentation on passengers who travelled on the Government-owned King Air ambulance. As a result, Government did not know who travelled at public expense nor could it verify that passengers were Government employees. Furthermore, the lack of adequate documentation related to passengers is not in accordance with the Government policy as directed by Cabinet.

- The lack of information on passengers who travelled on the Government-owned Cessna and the Government-owned water bombers is in direct contravention of Transport Canada Regulations which require that a passenger manifest be left at the point of departure and retained pending their audit.

- All departmental charters are coordinated by Air Services but the department requiring the charter has payment responsibility. Our review of departmental charters identified several weaknesses with respect to the payment of invoices. Key documents to support the payment of the invoice including the Government Aircraft Flight Report and the Aircraft Flight Authorization form were often incomplete and in some cases, were not attached to the invoice.

- The *Public Tender Act* requires that goods and services exceeding $10,000 be publicly tendered. We identified a number of aircraft charters that exceeded $10,000 each of which should have been publicly tendered.

## 3.25 Government Air Services Division

**Human Resource Management**

Weaknesses were identified with respect to the management of human resources. The Department has not established a human resource succession plan for Air Services, even though all of senior management and many of the pilots are approaching normal retirement age. Air Services incurs significant overtime expenditures due to the emergency nature of its operations, however, overtime is not properly monitored and controlled. In addition, Government policy which limits overtime to 10% of annual salary for management employees has not always been adhered to.

We noted as well that it was accepted practice that dispatchers who leave their shift early are not losing pay or using their leave. This practice has since been corrected by the Department and dispatchers are required to take employee leave when a scheduled shift is not completed. As well, attendance records were not accurate, complete or always approved by management.

## Findings and Recommendations

### Aircraft Acquisition and Disposal

### 1. Aircraft Acquisition

Government budgeted $6.0 million to replace the King Air 100 Air Ambulance which was purchased new in 1973. It was estimated that the aging aircraft would reach its total hours of operation limit around 30 June 2000. At this time the aircraft would have required extensive inspection and maintenance work to extend its life for a further period of time.

In March 2000 Government made a deposit of $2.0 million on a previously owned 1990 King Air 350 to replace the King Air 100. The King Air 350 was delivered to Government Air Services Division in June 2000 and went into service on 6 July 2000. The final cost of $4.95 million included the cost of equipment to adapt the aircraft for use as an air ambulance.

We asked the Department of Works, Services and Transportation to provide us with their assessment of the options they examined to replace the King Air 100 along with the financial implications of each option. Several months after our initial request, information was provided.

### 2. Aircraft Disposal

When two new CL215 water bombers were purchased in 1995, two CV14 Canso water bombers were placed in storage to be used as back up to the existing fleet. Our review indicated the following:

- We were informed air worthiness maintenance was discontinued in 1997 and the two aircraft were grounded because of budgetary constraints. However, Government's financial records show that the Department had unexpended funding of $11.8 million in that year. We note that the Department sold two other CV14 Canso water bombers in 1996 for a total of $427,000.

- In 1999, the two CV14 Canso water bombers were re-examined by Air Services for purposes of determining whether the aircraft could return to service. It was determined at that time that the two aircraft had deteriorated to the point that it was no longer cost effective to refurbish them. We note that a water bomber had to be leased at a cost of $275,000 to meet the demand during the 1999 fire season.

- At the time of our audit, the two Canso water bombers remain in unheated storage in Gander and there has been no action taken to dispose of the aircraft.

### Inventory Management System

The inventory at Air Services is valued at approximately $3 million. Of this total, $2.5 million is located at the St. John's hangar and $500,000 of small usable parts and obsolete Canso inventory is located in the Gander hangar. The inventory is maintained on the Department of Works, Services and Transportation on-line perpetual Inventory Management System.

Our review of the inventory system at Air Services identified the following weaknesses:

- Air Services currently requires inventory counts to be conducted once every two years. At the time of our audit in February 2000, inventory at Air Services was last counted in February and March 1997. An inventory count should have been conducted in the winter of 1999 but has not been conducted to date. Notwithstanding Air Services current policy, it is our opinion that inventory should be counted at least annually. During our audit, we selected a sample of 12 stock items from the physical inventory for comparison to the perpetual inventory system. For 3 of the stock items tested, the physical counts did not agree with the inventory system indicating that the inventory system is not accurate.

- The Inventory Management System is a generic inventory system that does not meet the specific needs of Air Services and its obligations under Transport Canada's requirements. For example, the current system does not track the age of life cycle parts and as a result, this information has to be tracked manually.

- We found little evidence of management's involvement in monitoring of inventory. Reports from the inventory system are produced as requested by management; however, we could not determine how frequently reports were requested and reviewed. We were informed by Departmental officials that stock level reports were reviewed regularly for larger items; however, a detailed analysis of the entire inventory had not been completed since the early nineties.

- Our review of the stock status report indicated that many parts had not moved for a very long period of time and there were amounts on hand far in excess of the usage over the past two years.

### Management of Aircraft Costs

#### 1. Management of Costs

Our review indicated that the Division is not using an appropriate system to track costs by individual aircraft and, as a result, there is no comparison and analysis of these costs over time, between aircraft, by hours flown and to industry standards. As a result, Air Services cannot adequately monitor these costs. For example:

- Direct maintenance and repair costs are recorded in the Government's Financial Management System under two separate accounts: supplies and overhaul. They are tracked by aircraft type such as CL215 water bombers and King Air; however, they are not tracked by individual aircraft.

- Labour costs for maintenance and repair are not tracked by employee, by aircraft type or by individual aircraft. Furthermore, there is no formal system to record how long it takes to perform specific maintenance and repair procedures.

# 3.25 Government Air Services Division

## 2. Government's Financial Management System

Our review indicated that the reports that Air Services is generating from Government's Financial Management System are not adequate to effectively monitor all costs. Non-salary costs are tracked by aircraft type rather than individual aircraft, while salary costs are not even tracked by aircraft type. Furthermore, we found that operating costs are often distorted by the inclusion of unrelated costs such as outside maintenance costs, maintenance work on the Commander (Grenfell) and equipment purchases on behalf of hospitals. We identified the following examples:

- Air Services was contracted to repair an aircraft owned by another entity and hired a sub-contractor to do the painting. That sub-contractor was paid $146,088. This amount was incorrectly included in the cost of maintenance for the CL215 water bombers and reported to the Department of Forest Resources and Agrifoods as part of the total annual costs for water bombers.

- Repairs in the amount of $146,499 were carried out on the Commander which is operated by the Grenfell Regional Health Services Board and was inappropriately charged to maintenance for the CL215 water bombers at Air Services and reported to the Department of Forest Resources and Agrifoods as part of the total annual costs for water bombers.

## 3. Total Aircraft Costs and Allocation of Overhead and Indirect Costs

Since the Air Services Division is not generating cost information from Government's Financial Management System required to effectively manage aircraft costs, total annual costs by aircraft type are determined manually by Air Services. Currently, these costs are determined for each aircraft type and include operating and maintenance costs, and overhead and indirect cost allocations such as administration and hangar expenses including labour.

This information is necessary to support the amounts charged to users of the Government aircraft as follows:

- the Department of Forest Resources and Agrifoods uses cost information provided by Air Services for charging the private sector for their share of the annual forest fire fighting costs;

- the Air Services Division uses this cost information to make decisions as to whether they will lease the water bombers or contract to do outside maintenance for third parties; and

- the Air Services Division uses this cost information to charge users for the services of the Air Ambulance when payment for the service is the responsibility of a third party or non-resident of Newfoundland.

However, our review of the hourly rates determined by the Air Services Division indicated that, although the cost information is used to calculate an hourly rate, an arbitrary amount is added to this rate in determining the hourly rate to be charged to users. Furthermore, since the current system for the accumulation of costs produces information that contains errors and the overhead allocations cannot be supported, the amounts being charged are not accurate.

### 4. Outside Maintenance Contracts and Water Bomber Leasing

Air Services enters into contracts to provide maintenance services and to lease its water bombers. For example, Air Services completed maintenance contracts for water bomber aircraft for the Province of Saskatchewan and Bombardier Canada Limited. As well, during the off season for fires in Newfoundland, they have leased fully equipped and staffed water bombers to the State of North Carolina and have ongoing commitments to share resources with other provinces under the Canadian Mutual Aid Resources Sharing Agreement. Figure 3 presents information on revenues relating to maintenance contracts and water bombing leasing.

**Figure 3**

**Contract and Leasing Revenues**
**For Year Ended 31 March**
**($000's)**

| Year | Mutual Aid Resources Sharing Agreements [1] | North Carolina | Maintenance Contracts | Other | Total |
|---|---|---|---|---|---|
| 1997-98 | 248 | 0 | 130 | 1 | 379 |
| 1998-99 | 438 | 349 | 364 | 20 | 1,171 |
| 1999-00 | 150 | 492 | 0 | 4 | 646 |

Source: Air Services Division

[1] Interprovincial leasing of Water Bombers

## 3.25 Government Air Services Division

Our review indicated that Air Services could not provide us with sufficient financial information to support their rationale for contracting its aircraft and other services to other jurisdictions and third parties. Furthermore, the Division did not have adequate information to show the final results of its contract work. As a result, the Division does not know whether these contracts were financially beneficial to Government.

In accordance with the *Financial Administration Act* and Government policy, all expenditures must be charged to expenditure accounts, for which funding has been approved by the House of Assembly. For the past three years, the Division has been charging expenditures to its revenue accounts, which contravenes the *Financial Administration Act*. In 1999-2000, the Department overspent its travel and supplies funding by $117,900 by charging this amount to revenue accounts.

### Aircraft Operations

### 1. Cessna Spotter Aircraft

The operation of the Cessna aircraft is regulated under the general provisions of Transport Canada Regulations and Standards (CARS) pursuant to the Federal Aeronautics Act. Government policy requires that the purpose of the flight and the names of the passengers travelling on all Government paid flights be documented.

Government Air Services uses a combined Flight Report/Journey Log and Passenger Manifest to record all flight activity of the Cessna including the details related to passengers. Our extensive review of these documents indicated that passenger details were rarely documented. Government Air Services is in direct contravention of Transport Canada CARS requiring that a passenger manifest be left at the point of departure and retained pending their audit. Furthermore, the lack of adequate documentation related to passengers is not in accordance with the Government policy as directed by Cabinet.

### 2. Water Bombers

The CL215 water bombers are classified under Aerial Work in the Transport Canada operations certificate and are regulated by the Air Ambulance & Fire Tanker Operations Manual set up under section 702 of the CARS. The Operations Manual and the Government Air Services Water Bomber Procedures Manual restrict passengers travelling on the water bombers to Forestry and Air Services staff.

## 3.25 Government Air Services Division

Our review indicated that the only documentation maintained in each region during the fire season is a manual chronological log of all fire activity. As well, each water bomber has an aircraft journey log that records the flying activity of the aircraft which is completed by the pilot and located in the aircraft until it is eventually filed at Air Services. The aircraft journey log is the only document that provides information to Air Services on who is on board the water bombers and on the utilization of the water bombers during the fire season. We examined journey logs for the 1999 fire season for each water bomber and noted cases where the journey log did not contain passenger names. As a result, there is not always a record of who is flying on the water bombers.

As a result, Government Air Services is in direct contravention of Transport Canada CARS requiring that a passenger manifest be left at the point of departure and retained pending their audit. Furthermore, the lack of adequate documentation related to passengers is not in accordance with the Government policy as directed by Cabinet.

### 3. Departmental Charters

Departments who wish to charter either a fixed wing aircraft or helicopter including a contract helicopter must contact the Air Services Division which will determine availability and suitability of a carrier. Air Services will provide the department with a listing of available carriers and estimated cost. For helicopter charters, if a contract helicopter is not available, then a helicopter is selected from one of three Standing Offer Agreements. The department requiring the flight will select a carrier from this listing and inform Air Services which will in turn finalize the reservation with the selected carrier. The department provides authorization for the charter on an Aircraft Flight Authorization form which is issued and approved in the department. The cost of the charter is charged to the department which requires the charter.

Figure 4 shows, by department, total payments made for charters (including the helicopter contract) for the years ended 31 March 1998, 1999 and 2000. These payments include the cost to charter the aircraft, fuel, landing fees and out-of-pocket crew expenses such as meals and accommodations. Charter costs for air ambulance trips are not included in this total.

## 3.25 Government Air Services Division

**Figure 4**

**Aircraft Charter Expenditures By Department**
**Years Ended 31 March**
**($000's)**

| Department | 1998 | 1999 | 2000 |
|---|---|---|---|
| Forest Resources and Agrifoods | 1,742 | 1,696 | 3,216 |
| Works, Services and Transportation | 369 | 315 | 1,673 |
| Mines and Energy | 302 | 263 | 268 |
| Municipal and Provincial Affairs | 121 | 84 | 74 |
| Justice | 68 | 66 | 45 |
| Executive Council | 65 | 134 | 197 |
| Development and Rural Renewal | 64 | - | 87 |
| Tourism | 63 | 56 | 55 |
| Legislature | 45 | 75 | 13 |
| Government Services and Lands | 41 | 66 | 89 |
| Fisheries and Aquaculture | 37 | 55 | 68 |
| Industry Trade and Technology | 13 | 8 | 19 |
| Human Resources and Employment | 7 | 1 | 7 |
| Environment and Labour | 5 | 15 | 34 |
| Education | 2 | 2 | 2 |
| Finance | - | 1 | - |
| Health and Community Services | - | 3 | 2 |
| **Total** | **2,944** | **2,840** | **5,849** |

Source: Government's Financial Management System

For departmental charters, we examined 50 sample items totaling $1,357,972. Our review identified the following control weaknesses:

- Government policy requires that invoices from charter companies must be accompanied by a Government Aircraft Flight Report before payment is made. These Flight Reports provide details of the trip including departure and arrival points, distance traveled, flying time and names of passengers.

In 6 of the 50 cases examined, the Flight Report was not attached to the invoice for payment. Of the 44 Flight Reports that were attached, 8 were not signed by the Department using the charter as required by Government policy. In total, 14 of the 50 flights that we examined were paid without evidence that the trip was completed as originally authorized.

- The names of all passengers on a flight are to be listed on the Aircraft Flight Report by the carrier as required by Government policy. We found that for 27 of the 44 Aircraft Flight Reports reviewed, passengers' names were not listed. Therefore, the Department did not know who traveled at public expense nor could they verify that passengers were Government employees.

- Departments wanting to charter an aircraft must complete an Aircraft Flight Authorization form showing, among other things, the intended destination, dates of travel and the names of all passengers. We found that the Aircraft Flight Report, prepared by the carrier, in 4 of 44 reports reviewed did not agree with the Aircraft Flight Authorization with respect to destination, dates or number of passengers. As a result, the actual trip taken in these four instances did not agree with the trip authorized by the department.

- There were 8 instances out of 50 flights reviewed where the Aircraft Flight Authorization form was not attached to the invoice. Of the 42 forms attached, 3 forms were not signed by, or on behalf of, the Deputy Minister and 4 forms were signed after the flight had occurred. As a result of these 15 instances, not all departmental charters are being properly approved as required by Government policy.

- For fiscal 2000, in 5 of the 50 sample items, purchase orders were issued for the charter flights, instead of the Aircraft Flight Authorization forms as required by Government policy. Furthermore, we found that the Aircraft Flight Report, prepared by the carrier, in 2 of the 5 cases did not agree with the purchase order as authorized by the department with respect to the number of passengers.

- The department requesting the charter is responsible for processing and paying invoices for charter services. In our examination of charter invoices, we noted the following weaknesses:

  - Details of crew expenses and receipts for accommodations were not provided with the invoices; however, the crew expenses were paid as invoiced. This was noted in 6 of the 50 invoices examined.

  - In one instance, the rate paid per hour for a helicopter charter was higher than the rate per hour as specified in the Standing Offer Agreement for helicopter charters resulting in an overpayment of $4,100.

  - The rate per statute mile is to cover the entire cost of the trip excluding crew expenses and applicable taxes. Such expenses as landing, positioning and navigation fees are to be included in this rate, unless the charter company specifies the additional charges in its price list submitted to Air Services. For one charter company where a higher rate per statute mile was paid, we noted that additional charges for landing, positioning and navigation fees were invoiced and paid for by the department, even though these charges had not been specified in the charter company's price list at Air Services. This resulted in an overpayment of approximately $11,400.

- All departments requiring aircraft charters are required to contact Air Services. We noted one case where an out of province charter company was used to transport a Government official from Ontario to Newfoundland. This charter did not go through Air Services. We were informed by officials of the department involved that it was an emergency situation and the charter was coordinated by the department and not Air Services. The cost of this trip was $18,047 and should have been tabled in the House of Assembly as an exception to the *Public Tender Act*.

- We examined two charters for travel outside Newfoundland. Officials at Air Services indicated that the charter company used was a sole source supplier for the trips, due to the speed of its aircraft. One of these charters, at a cost of $18,768, was for travel from Newfoundland to Quebec with stops in Maine and New York. The other charter, at a cost of $17,381, was for travel from Newfoundland to Ontario and Quebec. These charters should have been tabled in the House of Assembly as an exception to the *Public Tender Act*.

- We identified 3 cases where the contract was not awarded to the lowest bidder. The *Public Tender Act* requires that three quotes be obtained for the acquisition of goods and services less than $10,000. In cases where other than the lowest quote is accepted, departments are required to inform the Minister of Works, Services and Transportation of the exception and the Minister is required to table the exception in the House of Assembly. In these cases the Minister of Works, Services and Transportation was not notified as required by the *Public Tender Act*.

### 4. Air Ambulance

The Air Services Division is one of three groups that is responsible for ensuring that air ambulance services are provided for the Province. The King Air 100, based in St. John's, is operated and maintained by Air Services. In addition, Grenfell Regional Health Services operates and maintains the Commander aircraft which is located in St. Anthony while Health Labrador uses a dedicated chartered aircraft for coastal Labrador. When Air Services is contacted for an air ambulance, it will first utilize the King Air and if this aircraft is not available, the Commander will be used. However, if neither aircraft is available, then an aircraft will be chartered.

All costs related to the operation of the King Air are covered by Air Services which would include such items as maintenance, fuel and salaries for pilots and maintenance staff. The cost of fixed wing and helicopter charters for air ambulance flights are also incurred by the Department of Works, Services and Transportation. Grenfell Regional Health Services does not charge Air Services for the use of the Commander, when the King Air is unavailable. Similarly, Grenfell Regional Health Services is not charged for the use of the King Air. Grants for air ambulance are provided to Grenfell Regional Health Services and Health Labrador which is paid by the Department of Works, Services and Transportation.

Figure 5 shows the air ambulance expenditures paid for by the Department of Works, Services and Transportation. It should be noted that the cost of pilot and maintenance salaries for the King Air, although paid for by Air Services, are not tracked separately by Air Services.

## 3.25 Government Air Services Division

Figure 5

**Department of Works, Services and Transportation**
**Air Services Division -Air Ambulance Expenditures**
**For years ended 31 March**
**($000's)**

| Category | 1998 | 1999 | 2000 |
|---|---|---|---|
| Grants to Grenfell Regional Health Services | 1,432 | 1,282 | 1,582 |
| Grants to Health Labrador | 1,286 | 1,286 | 1,286 |
| Charters - Fixed-Wing and Helicopter | 1,326 | 1,172 | 1,161 |
| Maintenance, Repair Overhaul | 408 | 288 | 598 |
| Gasoline | 148 | 185 | 254 |
| Miscellaneous Operating Costs | 2 | 10 | 5 |
| Salaries of Pilots & Maintenance Staff | 235 | 372 | 415 |
| Overhead | 150 | 217 | 237 |
| **Total** | **4,987** | **4,812** | **5,538** |

Source: Government's Financial Management System and Government Air Services Allocations

Our review of the Air Ambulance program at Air Services included the following areas:

(a) **Air Ambulance Charters ($1.161 million)**

Processing of invoices for air ambulance charters require the same supporting documentation as departmental charters including: Government Aircraft Flight Report, Aircraft Flight Authorization form, and receipts for crew expenses. In addition, when an aircraft is dispatched by Air Services, demographic and medical data on the patient is recorded on the Air Ambulance Report by Air Services. This report is kept on file at Air Services. As well, all air ambulance flights must be approved by the Department of Health and Community Services or the St. John's Health Care Corporation Ambulance Dispatch, prior to Air Services dispatching an aircraft.

## 3.25 Government Air Services Division

We examined 24 sample items totalling $154,223 for air ambulance charters. Our review indicated that there was a lack of control over air ambulance charters. For example:

- In two of the samples that we examined, the Government Aircraft Flight Report was not attached to the invoice as required by Government policy. As a result, invoices are being paid without evidence that the trip was completed as authorized.

- Government Aircraft Flight Reports are not always approved by a departmental representative. Of the 22 Flight Reports examined, we identified 6 which were not signed. As a result invoices are being paid without evidence that the trip was completed as authorized.

- In 10 of the 22 cases examined, we found that the Government Aircraft Flight Reports did not have information on the names of passengers who travel on an air ambulance flight as required by Government policy. Therefore, Air Services could not tell whether only authorized passengers traveled on air ambulance charters.

- We identified discrepancies in 7 of the 24 samples with respect to passenger information between the Government's Aircraft Flight Report, the carrier's flight report and the Air Ambulance report. As a result, it is not possible to determine who traveled on the aircraft.

### (b) Air Ambulance Flights Using Government-Owned Aircraft ($1.509 million)

We examined 9 flights for the King Air and 3 flights for the Commander for 1997/98 to 1999/00. From our review of the Aircraft Flight Authorization form, the Air Ambulance Reports, the Aircraft Journey Log, and Passenger Manifest for the King Air, information on passengers names and the number of passengers was often omitted although this is required by Government policy. We also identified discrepancies in passenger information between these documents. Therefore, Air Services could not tell whether only authorized passengers traveled on the air ambulance.

## 3.25 Government Air Services Division

### Human Resource Management

There are approximately 60 employees employed by the Air Services Division including seasonal water bomber pilots. The total employees will vary throughout the year with the maximum number of employees during the fire season from April to September. The staff complement is made up of management, administration, maintenance, dispatchers, Air Ambulance and water bomber pilots. All employee categories except management are unionized.

Weaknesses were identified with respect to the management of human resources. The Department has not established a human resource succession plan for Air Services, even though all of senior management and many of the pilots are approaching normal retirement age. Air Services incurs significant overtime expenditures due to the emergency nature of its operations, however, overtime is not properly monitored and controlled. In addition, Government policy which limits overtime to 10% of annual salary for management employees has not always been adhered to.

We noted as well that it was accepted practice that dispatchers who leave their shift early are not losing pay or using their leave. This practice has since been corrected by the Department and dispatchers are required to take employee leave when a scheduled shift is not completed. As well, attendance records were not accurate, complete or always approved by management.

### Recommendations

*Air Services should implement adequate controls over its inventory.*

*Financial systems should be better utilized to identify the costs of operating each individual aircraft.*

*Air Services should comply with the* Financial Administration Act *and charge expenditures to expenditure appropriations approved by the House of Assembly rather than revenue accounts.*

*Air Services should comply with Transport Canada Regulations and the direction of Cabinet regarding documentation on the use of aircraft and passenger information. Direction should also be provided to Government departments.*

*Government departments should comply with the* Public Tender Act *in the acquisition of aircraft charters.*

## 3.25 Government Air Services Division

*Controls over payment for aircraft charters should be improved.*

*Air Services should adequately control overtime incurred by staff and comply with Government policy on compensation practices.*

### Department's Response

### Aircraft Disposal

- *Discussions are ongoing with the Department of Forest Resources and Agrifoods regarding the disposition of the two remaining Canso Aircraft. These have been grounded for four seasons and in that time Air Services only required one additional water bomber for an eight-week period in 1999.*

- *The two Canso water bombers were parked in 1997 as the result of a program review decision. We are presently seeking direction on the disposal of both aircraft.*

### Aircraft Maintenance and Inventory

- *Inventory counts were not conducted because a new inventory system was being developed and all available personnel were involved in this project. Now that Air Services has their new system up and running, annual counts will be done.*

- *A new computerized inventory, maintenance, and technical records system has been installed at Air Services.*

- *Now that Air Services has the new inventory system, management will mandate a semi-annual monitoring of stock level reports. With the previous inventory system, only an annual review was conducted.*

- *Some slow moving parts have to be retained in case of potential mechanical problems during the fire season. Also some parts originated with bulk purchases of parts when new aircraft were brought on stream. However, where possible in future, supplies will be reduced by initiating new maximum / minimum levels based on past usage.*

- *With the new inventory system, parts issued from inventory **must** be authorized by a supervisor which will ensure a greater level of control.*

## 3.25 Government Air Services Division

### Management of Aircraft Costs

- *Due to limitations with the older computerized financial system, it was virtually impossible to track exact costs with the limited human resources available. In order to generate reasonably accurate figures, we resorted to a manual system based on a percentage allocation of our salary expenditures. The Department will budget for the purchase in 2001/2002 of a module to track labour costs by aircraft and by employee to better manage aircraft costs. This will complement the new inventory and maintenance system recently installed. Air Services will then be able to track labour and parts by aircraft.*

### Government's Financial Management System

- *Due to the limitations of the old financial system, unusual expenditures would have to be tracked manually which obviously led to human error. With the new financial management system and tracking codes, repair costs for contract work can be separated for accounting purposes and should eliminate errors of the type described in your report.*

### Total Aircraft Costs and Allocation of Overhead and Indirect Costs

- *As previously indicated, rates in the past had to be determined using some estimations based on historical data. The new computerized system will provide more accurate information to determine hourly rates and will eliminate the need to manually track costs. This will provide more accurate information for charge out purposes and will facilitate more accurate invoicing.*

### Outside Maintenance Contracts and Water Bomber Leasing

- *There are two scenarios for utilization outside the Province for water bombers. For other Canadian Provinces it is not a contracting scenario but more of an inter-provincial assignment thus involving less risk. It is based on a mutually agreed rate. For outside other Provinces, the services are provided as the result of a tendered contract thus involving higher risk.*

- *Air Services has provided a financial summary of the 2000 contract with North Carolina showing expenses of $239,210 and income of $568,275 which demonstrates a net revenue gain for the Province. In future, contract costs will be tracked using a tracking* *code in the Oracle System, as was done in FY 2000-2001. This, combined with an improved inventory maintenance and costing system, will provide more accurate information.*

- *The Department recognizes its error in charging expenditures to revenue accounts. In future, in the event the Department is the successful bidder in a contract for its water bombers, e.g. with the State of North Carolina, an appropriation will be requested in the Department's budget to offset expected expenditures. The net effect on the Province's Public Accounts will be zero when the revenue is deposited into general revenue.*

### Cessna Spotter Aircraft and Water Bomber

- *Air Services officials had discovered this discrepancy prior to your audit and had taken appropriate action to ensure compliance with Transport Canada regulations and Department policy. We will ensure that the direction given is followed in future to ensure against any repeat action. Also, officials at Forest Resources and Agrifoods will be directed to maintain proper logs for the Cessna.*

- *Transport Canada CARS relating to passenger manifests applies only to aircraft transporting passengers. Water bombers do not transport passengers.*

### Departmental Charters

*It must be stated here that in the late 1980's Air Services distributed to all Departments and aircraft companies the Air Services Procedures Manual which detailed the procedures for acquisition and invoicing and all the necessary documentation required to arrange and pay for aircraft charters. It appears this process must be repeated as soon as possible.*

- *Air Services does not use purchase orders for charter flights; the instance referred to in your report related to another department. This comment will be brought to the attention of the appropriate officials in the department concerned.*

- *Air Services will send copies of current charter rates for fixed wing and helicopters to all departments as part of our general re-emphasis on the need to comply with Department policy. We will also review the Aircraft Flight Authorization document to investigate whether or not more detailed information should be noted.*

## 3.25 Government Air Services Division

- *As with every policy, rule or regulation, exceptions are sometimes unavoidable. In the instance referenced here, a very senior Government official determined the necessity of arranging through his office a charter flight back to this Province from Ontario, due to an emergency. Our officials at GPA did not receive the appropriate information from the Department concerned, as required under the Public Tender Act, and consequently the information was not tabled as an exception in the House of Assembly.*

- *Unfortunately, sometimes due to factors beyond our control involving other Departments, charter companies are selected other than the lowest bidder. For the same reason, sometimes the same charter company is selected on successive occasions. Unfortunately, in the cases referenced here, our normal procedure of tabling the exceptions in the House of Assembly was not able to be followed due to the fact we did not receive the appropriate information from the other Department(s). This process will be explained again to the Departments as part of our re-emphasis on compliance with the Public Tender Act and Department policy.*

### Air Ambulance Charters

- *This appears to have been a breakdown in the Department's procedures and we have no explanation why it occurred. Air Services will ensure that all invoices for Air Ambulance charters include the Government Aircraft Flight Report in future. As well, Air Services will take steps to ensure Government Aircraft Flight Reports are approved by a HCS representative.*

- *Air Services will take the necessary steps to ensure an accurate passenger manifest is kept of the names of all people traveling on all Air Ambulance Flights.*

### Air Ambulance Flights Using Government-owned Aircraft

- *Passenger names – See* **Air Ambulance Charters**.

- *The Department will investigate the feasibility of conducting an internal audit every year to ensure to the extent possible record keeping procedures are being followed.*

## 3.25 Government Air Services Division

### Human Resources Planning

- *While not designated as a formal Human Resource Plan, the Department has always had an informal plan for recruiting replacement resources. In the past we have not encountered any difficulties in recruiting and therefore we have not found it necessary to implement a formal HR plan. A HR planning exercise is currently being completed in association with a relocation of the Air Services Division to Gander. Many of the human resources issues will be resolved through this process. Those not resolved in this process will be incorporated into the Department s overall Human Resources Plan.*

### Management of Employee Overtime

*Overtime and call-back for unionized employees is governed by the collective agreement provisions.*

- *A system of back-up documentation will be established immediately to support the reasons and recording of overtime worked. While errors are always possible, every effort will be afforded to ensure against such in future, to the extent possible.*

- *Payroll staff inadvertently overlooked the 10% maximum overtime compensation per annum rule. This has now been corrected and the 10% maximum payment will be adhered to in future.*

## 3.26 Vessel Renewal and Replacement

### Introduction

The Department of Works, Services and Transportation is responsible for the Province's ferry operations. During the 1999-2000 fiscal year, the Province spent $31.5 million on ferry operations and collected $16.0 million in revenues. At 31 March 2000, the Province's ferry operations included 20 vessels serving 16 routes around the Island and coastal Labrador and 1 newly acquired vessel undergoing major refit.

Of the 21 vessels, nine are owned by private ferry operators and the remaining 12 are owned by the Province. Figure 1 provides the age of these 12 Government owned vessels, which range from 10 years to 37 years.

**Figure 1**

**Age of Province Owned Vessels 31 March 2000**

| Vessel | Age |
|---|---|
| Gallipoli | 14 |
| Beaumont Hamel | 15 |
| Hamilton Sound | 32 |
| Green Bay Transport | 33 |
| Inch Arran | 37 |
| Sound of Islay | 32 |
| Island Joiner | 27 |
| Flanders | 10 |
| Sir Robert Bond | 25 |
| Northern Ranger | 14 |
| Captain Earl Winsor | 28 |
| Ahelaid | 14 |

Source: Department of Works, Services and Transportation

## 3.26 Vessel Renewal and Replacement

Two of the above vessels, the Captain Earl Winsor and the Ahelaid, were purchased in 1997 and 1999 respectively.

### Scope and Objectives

Our review was completed in November 2000. The objectives of the review were to:

- determine the costs of the acquisition and refit of the Captain Earl Winsor and the Ahelaid; and
- review the Department's vessel replacement plan.

### Conclusions

The Department of Works, Services and Transportation owns 12 marine vessels. Of these 12 vessels, 7 are 25 years of age and older and have an average age of 23 years. Included in these 12 vessels are two marine vessels which were purchased within the past three years. The Captain Earl Winsor was purchased in 1997 and was 25 years old when purchased. The Ahelaid was purchased in 1999 and was 13 years old when purchased. Subsequent to their purchase, both vessels were required to be refitted to meet Canadian standards and Departmental requirements.

Our review of the purchase price and refit costs indicated that both vessels cost more to refit than originally estimated by the Department and approved by Government. In particular:

- The total cost to purchase and refit the Earl Winsor was $3.6 million, which was $1.5 million more than the Department's original estimate of $2.1 million.
- The refit of the Ahelaid is not yet complete; however, to date, the total cost to purchase and refit the Ahelaid is $3.4 million with a minimum of an additional cost of $656,000 to be incurred for a total of $4.1 million compared to the Department's original estimate of $2.9 million. Departmental officials indicate that the final costs will exceed this $4.1 million.

The Department is not always complying with the *Public Tender Act* in that it is not always publicly tendering contracts or reporting exceptions to the House of Assembly. In addition, the Department is not always complying with Government's policy in hiring consultants.

## 3.26 Vessel Renewal and Replacement

We also determined that, almost without exception, the Department is not complying with the *Financial Administration Act* in that purchase orders are prepared after the invoices were received at the Department. Purchase orders are required to be prepared prior to the request for a good or service to ensure that the purchase is properly authorized and that sufficient funding is available to pay for the purchase.

Given that the normal life expectancy of a ferry vessel is about 25 years, significant expenditures will be required in the near future to upgrade or replace its marine vessels. Government commissioned a study in 1993 to review its fleet of marine vessels and determined that $18 million to $25 million was required over the following 10 years. With the exception of the newly acquired Captain Earl Winsor and the Ahelaid, there has not been a significant upgrade of the Province's fleet of marine vessels since 1993. As a result, the fleet continues to deteriorate.

### Detailed Findings

### Purchase and Refit of the Captain Earl Winsor

The Department purchased the Captain Earl Winsor (previously named Prince Edward) from the Federal Government in October 1997 following completion of the Confederation Bridge to Prince Edward Island. At that time, the Department estimated that it would cost approximately $2.1 million to refit the vessel for deployment on the St. Barbe - Blanc Sablon service. The Department's 1997-98 budget, approved by the House of Assembly, included a $2.0 million provision for the purchase of a vessel. Our review of the refit of the Captain Earl Winsor indicated the following:

- The Province bought the vessel from the Federal Government for $300,000. This purchase was reported in the Public Tender Exception Report as a purchase from a sole supplier as required by the *Public Tender Act*.

- A tender for the refit was called in January 1998 and awarded for $1.4 million. In addition to the $1.4 million contract that was awarded, the Department approved an additional $1.3 million in refit work for the Captain Earl Winsor. Thus, the total cost of this contract was $2.7 million. This additional work of $1.3 million, however, was not publicly tendered. The Department should have requested public tenders on the additional work of $1.3 million or if not tendered for reasons such as pressing emergency or sole supplier, the exception should have been reported to the Minister of Works, Services and Transportation and tabled in the House of Assembly as required by the *Public Tender Act*.

## 3.26 Vessel Renewal and Replacement

- In addition to the $2.7 million for the main contract, a further $624,000 was spent for the refit of the vessel as follows:
  - $74,000 in professional fees were paid to a marine consulting company. Discussion with departmental officials indicated that these consultants were hired based on past experience with the consultant and no proposals or quotes were obtained as required by Government policy.
  - $283,000 was paid to various suppliers, for which each service was in excess of $10,000 and was reported in the Public Tender Exception Report mainly as pressing emergencies to complete the refit.
  - $91,000 was paid to two suppliers, for which purchases were in excess of $10,000 each but which were not tendered and were not reported to the House of Assembly as required by the *Public Tender Act*.
  - $141,000 was paid to various suppliers for services under $10,000 each. Departmental officials indicated that for most of these services, 3 quotes were obtained.
  - $7,000 was paid for insurance which is not subject to the *Public Tender Act*. Departmental officials indicated that insurance services for Government is obtained through proposals and any additional insurance, like this case, is added to the policy.
  - $28,000 in fuel which is tendered annually by Government.

In summary and as indicated in Figure 2, the total cost to purchase and refit the Earl Winsor was $3.6 million compared to the original estimate of $2.1 million.

**Figure 2**

---

**Summary of Costs**
**Captain Earl Winsor**
**(000's)**

| Description | Amount |
|---|---|
| Purchase of Vessel | .3 |
| Main Refit Contract - Original Tender | 1.4 |
| - Additional Work | 1.3 |
| Other Additional Work | .6 |
| Total | 3.6 |
| Original Estimate | 2.1 |
| Amount Over Budget | 1.5 |

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During our review of the above expenditures, we noted that, almost without exception, purchase orders were prepared after the invoices were received at the Department. The *Financial Administration Act* requires that purchase orders be prepared prior to the request for a good or service. Purchase orders are required to be prepared prior to the request for a good or service to ensure that the purchase is properly authorized, that sufficient funding is available to pay for the purchase and that the correct price is paid as quoted on the purchase order.

## Purchase and Refit of the Ahelaid

The Department purchased the Ahelaid from a company in Estonia in May of 1999. At that time, the Department estimated that it would cost approximately $2.9 million to purchase and refit the vessel for deployment as a swing vessel. In March of 1999, Cabinet authorized an expenditure of $1.0 million for the purchase and refit of the vessel and in June 1999 Treasury Board authorized an additional $1.0 million for vessel refit. Our review of the refit of the Ahelaid indicated the following:

## 3.26 Vessel Renewal and Replacement

- In May of 1999, the Province paid $764,000 to a foreign company for the purchase of the vessel. Since this purchase was not publicly tendered, it should have been reported to the House of Assembly as required by the *Public Tender Act*. The Province also paid $166,000 in custom duties in July 2000 to bring the vessel into Canada. The Ahelaid arrived in St. John's in May of 1999.

- A tender for the refit was called in December 1999 and awarded for $1.03 million. The cost incurred under this contract to the end of September 2000 was $692,000. Departmental officials indicated that they expect the actual costs to exceed $1.35 million.

- In addition to the main refit contract, a further $1.8 million has been spent for the refit of the vessel as follows:

  - $328,000 in salaries and $66,000 in transportation and communication, approximately $50,000 of which was paid to employees of the Department who are involved in the actual refit of the vessel. Payment of this $50,000 for travel is not in compliance with Government's travel rules.

  - $178,000 for a marine consultant. Discussion with departmental officials indicated that this consultant was hired based on past experience with the consultant and no proposals or quotes were obtained. In this instance, Government policy requires that proposals or quotes be obtained and the contract receive the prior approval of Cabinet.

  - $840,000 was paid to various suppliers, for which each service was in excess of $10,000. Goods and services over $10,000 are required to be publicly tendered. $558,000 of these services were not tendered but were reported to the House of Assembly as pressing emergencies. One of these services, in the amount of $125,000 was reported as $85,000 to the House of Assembly. The remaining $282,000 has been reported as pressing emergencies to the Minister of Works, Services and Transportation but has not yet been reported to the House of Assembly.

  - $183,000 was paid to various suppliers, for which each service was in excess of $10,000 but which were not tendered or reported to the House of Assembly as required by the *Public Tender Act*.

## 3.26 Vessel Renewal and Replacement

- $204,000 was paid to various suppliers for services under $10,000. Departmental officials indicated that for most of these services, 3 quotes were obtained.
- $24,000 for insurance which is not subject to the *Public Tender Act*. Departmental officials indicate that insurance for all ferries is obtained through proposals and any additional insurance, like this case, is added to the policy.

In summary and as indicated in Figure 3, the total cost to purchase and refit the Ahelaid to date is $3.4 million with a minimum of an additional $656,000 for a total of $4.1 million compared to the Department's original estimate of $2.9 million. Departmental officials indicate that the final costs will exceed this $4.1 million.

**Figure 3**

**Summary of Costs**
**Ahelaid**
**(000's)**

| Description | Amount |
|---|---|
| Purchase of Vessel, including custom duties | .9 |
| Main Refit Contract - Cost to Date on Original Tender | .7 |
| - Estimated to Complete | .7 |
| Other Additional Costs | 1.8 |
| Total | 4.1 |
| Original Budget | 2.9 |
| Amount Over Budget | 1.2 |

During our review of the above expenditures, we again noted that, almost without exception, purchase orders were prepared after the invoices were received at the Department.

## 3.26 Vessel Renewal and Replacement

### Vessel Renewal and Replacement

As at the time of our audit, 7 of the 12 marine vessels owned by the Province were 25 years of age and older with the average age being 23 years of age. Given that the normal life expectancy of a ferry vessel is about 25 years, the Department is concerned that significant expenditures will be required in the near future. In addition, there are concerns that increasing mechanical problems will reduce the level of service provided. Also, Federal regulatory requirements are becoming more stringent and this will likely result in significant additional expenditures for the Department's aging fleet.

In 1993 the Department, in order to identify the required funding to sustain Government's fleet of marine vessels, prepared a vessel replacement schedule outlining major renewal work or replacement required over the following 10 years. A survey of the vessels was carried out by Marystown Shipyard to determine their condition. In addition, the Shipyard provided the estimated cost of new construction as well as an estimated cost of major overhaul (renewal) for those vessels which were determined to be suitable to retain. The report, at that time, indicated that $18 million to $25 million was required over the following 10 years to replace 3 vessels and renew 4 vessels.

A follow-up report prepared by the Department in 1998 indicated that since 1993, the Department spent $4.2 million to upgrade its fleet of marine vessels. Although two additional vessels have been purchased and refitted, one is 28 years old and the other is 14 years old. The remainder of the fleet continues to deteriorate.

### Department's Response

*We found your report to be accurate with respect to amounts spent on acquiring the vessels, however, we are again subject to the fact that purchase of used vessels is a very unpredictable endeavour. Professional estimates and opinions were solicited throughout the process. As thorough as these estimates can be, no one is able to definitively predict what will happen when the vessel is actually 'opened up.' It is primarily then that the Federal regulators (Ship Safety) become involved and determine the full extent of work required. Given the 'safety' driven aspect of these projects, decisions on requirements will always benefit the end user (public) no matter the cost. We certainly do not disagree with this principle but it invariably adds to our cost. This situation arises even in the annual refit of our established vessels where unknowns are a nature of the business.*

## 3.26 Vessel Renewal and Replacement

*Another aspect of ship repair and modification which limits our ability to obtain alternate prices/tenders is the fact that we are captive to a shipyard once the vessel/machinery is dismantled. We do not have the capability of bringing outside contractors into a shipyard. Our only mechanism is to negotiate with the yard for unforeseen requirements that may arise.*

*In reference to the $3.6 million to purchase/modify the 'Captain Earl W. Winsor' and the estimated $4.1 million for the 'Ahelaid', it should be acknowledged in your comments that construction of these vessels would have cost an estimated $23 million and $15 million respectively.*

*Your review refers to the hiring of marine consultants for each of the projects. This professional service cannot be tendered. The requirement for each project is ongoing and requires the consultant (naval architect) to advise and guide us as well as provide the required technical liaison (information, drawings, specifications, etc.) with Ship Safety (Transport Canada). The specifics of what would be required could not be defined adequately enough before each of these projects to obtain quotes.*

*Recognizing that we are not operating in an ideal environment, my Department has taken initiatives internally to enhance controls within our Marine Operations. We have implemented a Project Permit System whereby each major project is identified (Permit Number) and an estimate of cost is pre-blocked. A weekly report allows us to track expenditure on each project, and if additional funds are required for the project, then a Change Order to the Permit is required before additional expenditures are undertaken.*

*We have also placed a higher priority on timely completion and screening of Form B's for those instances where tendering is not an option. Our intention is to adhere to Government policy where at all possible while providing an effective operation.*

*Another significant point raised in your report was that Purchase Orders were prepared after the invoices were received by the Department. We do actually receive the Purchase Order to carry out this work, however, Government Purchasing Agency requires the final cost before printing the hard copy Purchase Order. We are not able to confirm the final cost of the service until completion of the work. We therefore find ourselves in a Catch 22 situation.*

## 3.26 Vessel Renewal and Replacement

*In the final section of your report which addresses Vessel Renewal and Replacement, you have indicated that my Department, on two occasions (1993 and 1998), has prepared submissions outlining the condition of the fleet and the need for replacement. Unfortunately, Government was not in a position to provide sufficient capital to construct new ships which leaves my Department in a situation where acquisition of used vessels such as the 'Winsor' and 'Ahelaid' is the remaining alternative. Despite the fact that we are maintaining an aging fleet, we wish to make it quite clear that all of our vessels are continually inspected by Ship Safety and are completely safe and seaworthy.*

*In conclusion, I reiterate that we are making every effort to effectively carry out our marine operations under Government guidelines. We do find ourselves often times, however, in situations where strict adherence to all the rules will result in an ineffective operation.*

## 3.27 Leased Accommodations

### Introduction

The Accommodations and Realty Services Division of the Department of Works, Services and Transportation is responsible for the administration of space leased by government departments, as well as other government bodies upon request. The details of all leases administered by the Division are maintained in an electronic database. As shown in Figure 1, at 2 March 2000, the Division managed 154 leases covering 545,000 square feet of space at an annual lease cost of $6.7 million.

**Figure 1**

**Leases Administered by Accommodations and Realty Services Division**
**Department of Works, Services and Transportation**
**2 March 2000**

| Lease Type | Number of leases | Total square footage (000's) | Annual lease cost (000's) |
|---|---:|---:|---:|
| Office space | 133 | 455 | $6,565 |
| Storage space | 11 | 10 | 78 |
| Land | 10 | 80 | 76 |
| **Total** | **154** | **545** | **$6,719** |

Source: Department of Works, Services and Transportation lease database

The *Public Tender Act* provides legislative direction for the calling of tenders for the acquisition of leased space to all government funded bodies. Government funded bodies include all departments, the Government Purchasing Agency, Crown corporations and agencies of the Crown, municipalities, school boards, hospitals, Memorial University of Newfoundland and the Workplace Health, Safety and Compensation Commission. With respect to leases, the *Public Tender Act* provides legislative direction as follows:

- Section 4(1) outlines certain exemptions from calling tenders for leases including when the lease value is less than $10,000 or when it is less than $30,000 and the head of the government funded body indicates that it is not advisable to invite tenders, when the space is acquired from another government funded body at fair market value or when there is an urgent need for the space.

- Section 4 (4) provides that a lease for space that was originally publicly tendered and contains a provision for a renewal option may be renewed for the same or lesser amount of space with the approval of Treasury Board in accordance with the terms of the original lease or on terms more favourable to government.

- Section 4 (5) provides that a lease for space that was not originally publicly tendered, or that was originally publicly tendered without a provision for a renewal option, and a lease for an increase of the area of leased space may be renewed or entered into with the approval of the Lieutenant-Governor in Council. The lease renewal must be in accordance with the terms of the original lease or on terms more favourable to government.

In accordance with the *Act*, the Minister of Works, Services and Transportation is required to report to the House of Assembly those leases that were not tendered because the lease was less than $30,000 and it was determined not to be advisable to invite tenders, the space was urgently required or the space was renewed under Section 4 (4) or 4 (5) of the *Act*.

- Section 4 (2) of the *Act* permits the Lieutenant-Governor in Council to exempt particular leasing situations from the application of public tendering where the government funded body reasonably requires a particular space. Since 1994, these exemptions from tender are not required to be reported to the House of Assembly.

## Scope and Objectives

We completed our review of leases in November 2000. The objective of our review was to examine the existing leases being managed by the Division to determine whether:

- the leasing arrangements currently in place are in accordance with the *Public Tender Act*; and

- the Division had adequate planning processes to identify Government's accommodation requirements on a timely basis.

## 3.27 Leased Accommodations

**Conclusions**

A review of the 133 office leases being managed by the Division at 2 March 2000 indicated that the leases were entered into on the basis shown in Figure 2.

**Figure 2**

**Office Lease Arrangements**
**2 March 2000**

| Type of Lease Arrangement | Number of Leases | % Leases | Annual Lease Amount ($ 000's) |
|---|---|---|---|
| Month to Month Lease - Less than $10,000 | 32 | 24.1 | 146 |
| - Greater than $10,000 | 42 | 31.6 | 2,061 |
| | 74 | 55.7 | 2,207 |
| Not Publicly Tendered - Less than $10,000 | 13 | 9.8 | 85 |
| Not Publicly Tendered - Less than $30,000 and tender not advisable | 1 | 0.7 | 14 |
| Not Publicly Tendered - Space acquired from another Government Funded Body at fair market value | 3 | 2.3 | 160 |
| Not Publicly Tendered - Particular space required | 10 | 7.5 | 945 |
| Lease Renewals for Fixed Period of Time | 12 | 9.0 | 1,180 |
| Publicly Tendered | 19 | 14.3 | 1,900 |
| No Authority for Extension of Lease Term | 1 | 0.7 | 74 |
| **Total** | **133** | **100.0** | **6,565** |

Source: Department of Works, Services and Transportation lease database

Accordingly, almost 56 percent of leases currently being managed by the Division are on a month to month arrangement at an annual lease cost of $2.2 million. 49 of these 74 leases, or 66 percent, have been in such an arrangement since 1996 and earlier. For the most part, the reason provided for these lease arrangements is that the tenant "needs additional time to determine future space requirements". As a result, it is evident that space requirements of Government are not being planned and acquired in a co-ordinated and systematic manner. Government does not have an accommodations plan which considers current and future accommodation needs of Government to ensure the optimal use of Government-owned and leased facilities.

In addition, 10 leases, with an annual lease cost of $0.9 million, were exempted by the Lieutenant-Governor in Council from tender as a particular space was required. Prior to 1994, these arrangements were required to be publicly disclosed by a regulation, thus providing transparency to a lease arrangement which was not publicly tendered; however, since 1994, these exemptions are not required to be reported publicly.

Under the current lease terms, only 19 of the 133 leases, or 14 percent, have been publicly tendered with annual lease costs of $1.9 million.

The primary objective of the *Public Tender Act*, as it pertains to leasing, is to require a public tender when space is required. The *Act* does permit an exemption from public tendering in certain cases, most of which are required to be publicly disclosed. Given that the majority of lease arrangements currently in place did not result from a public tender, I am concerned that the Department is not complying with the spirit and intent of the *Public Tender Act*.

## Detailed Findings

### Review of Lease Arrangements

Our review of the 133 office leases (excluding leases for storage and land) being managed by the Division at 2 March 2000 indicated the following:

#### 1. Month to Month Lease Arrangements

As Figure 3 indicates, 74 (or 56%) of the 133 office lease arrangements are currently on a month to month basis with no fixed term.

## 3.27 Leased Accommodations

**Figure 3**

**Office Leases Administered by Accommodations and Realty Services Division**
**Department of Works, Services and Transportation**
**2 March 2000**

| Lease commencement date | Number of leases | Total square footage (000's) | Annual lease cost (000's) | Leases with fixed term (1–5 yrs) | Leases on a month to month basis |
|---|---|---|---|---|---|
| 1999 | 10 | 18 | $ 281 | 10 | 0 |
| 1998 | 21 | 39 | 563 | 14 | 7 |
| 1997 | 12 | 21 | 296 | 8 | 4 |
| 1996 | 29 | 88 | 1,235 | 11 | 18 |
| 1995 | 14 | 97 | 1,433 | 11 | 3 |
| 1994 and earlier | 47 | 192 | 2,757 | 5 | 42 |
| **Total** | **133** | **455** | **$6,565** | **59** | **74** |

Source: Department of Works, Services and Transportation lease database

The majority of these month to month arrangements were at one time fixed term leases which have since expired, and according to department officials have been negotiated on a month to month basis with the approval of the Lieutenant-Governor in Council. We found that 49 of the 74 month to month arrangements have been in effect since 1996 and earlier. Our review indicated that, for the most part, the reason given for month to month renewals, is that tenants "need additional time to determine their future space requirements".

Since 49 of the 74 have had these month to month arrangements in effect for more than four years, it is obvious the space requirements of Government departments are not being acquired in a co-ordinated and systematic fashion. Government departments are presently leasing approximately 455,000 square feet of office space at an annual cost of $6.6 million. However, other alternative options (such as leasing larger areas of space) are not pursued by the department.

In addition, with so many leases in month to month arrangements, we are concerned with the increased risk that departments and agencies of government and their clientele may be left in a compromising situation should the landlord decide to terminate the lease.

### 2. No Tender Required Under Section 4 (1)

Under Section 4 (1) of the *Public Tender Act*, 17 of the 133 office leases did not require a public tender as follows:

- 13 of these leases were exempted under Section 4(1)(a) of the *Act* as the leases were less than $10,000. These exemptions from tender are not required to be reported to the House of Assembly.

- 1 of the leases was exempted under Section 4(1)(b) of the *Act* as the lease value was less than $30,000 and the head of the government funded body determined that a tender was not advisable. This exemption from tender was reported to the House of Assembly as required by the *Public Tender Act*.

- 3 of the leases were exempted under Section 4(1)(c) of the *Act* as the space was acquired from another government funded body at fair market value. These exemptions from tender are not required to be reported to the House of Assembly.

### 3. No Tender Required Under Section 4 (2)

Under Section 4 (2) of the *Public Tender Act*, 10 leases were exempted by the Lieutenant-Governor in Council as a particular space was required. Figure 4 indicates that these ten leases have an annual rental value of $944,624.

## 3.27 Leased Accommodations

**Figure 4**

**Lease arrangements exempted under Section 4(2) of the *Public Tender Act***

| Landlord | Period of Lease | Annual Rental |
|---|---|---|
| Landlord A | September 1999 to August 2002 | $ 15,600 |
| Landlord B | July 1999 to June 2002 | 70,980 |
| Landlord B | July 1999 to June 2002 | 104,780 |
| Landlord B | December 1998 to November 2001 | 48,000 |
| Landlord B | April 1998 to December 2000 | 91,560 |
| Landlord C | December 1997 to March 2000 | 12,000 |
| Landlord D | September 1997 to March 2000 | 9,600 |
| Landlord E | March 1996 to February 2001 | 479,724 |
| Landlord F | October 1997 to September 2000 | 79,380 |
| Landlord G | February 1999 to March 2002 | 33,000 |
| **Total** | | **$944,624** |

Source: Department of Works, Services and Transportation lease database

In most instances where the *Act* does not require public tenders and there is, in fact, no public tender, information on the lease arrangement must be publicly disclosed. However, Section 4(2) is an exception to the public disclosure requirements.

Prior to 1994, exceptions to the *Public Tender Act* permitted under Section 4(2) were required to be publicly disclosed by a regulation, thus providing transparency to a lease arrangement which was not publicly tendered. In 1994, however, Section 4(2) of the *Public Tender Act* was amended so that a regulation was no longer required when the Lieutenant-Governor in Council excepted certain leasing situations from the requirement to publicly tender if a particular space was required. In effect, these leasing arrangements are no longer disclosed publicly either by regulation or by tabling in the House of Assembly.

We examined the history of 7 of the above leases and found that 5 leases were in effect a renewal of an existing lease but with terms and conditions significantly different than the previous lease. In three of these five cases there was an increase in the lease rate although in two of these cases, the square footage of leased space decreased. For the remaining two leases, the lease rate decreased with changes in the square footage of the leased space.

### 4. Lease Renewals - Fixed Term

12 of the 133 office leases were existing leases that were renewed for a fixed term as follows:

- 2 of these leases were renewed, in accordance with the original term of the lease, under Section 4 (4) of the *Act* and approved by Treasury Board. These 2 leases were originally publicly tendered, contained a provision for a renewal option and the space was less than or the same as the space in the original lease.

- 10 leases were renewed, in accordance with the original term of the lease, under Section 4 (5) of the *Act* and approved by the Lieutenant-Governor in Council. These leases were not originally publicly tendered or were originally publicly tendered without a provision for a renewal option.

Lease renewals under Section 4 (4) or 4 (5) of the *Public Tender Act* are also required to be reported to the Minister of Works, Services and Transportation within 30 days of the lease renewal award date for tabling in the House of Assembly. Our review of the above 12 lease renewals indicated that in 5 cases the renewals were not reported to the House of Assembly.

During our review of lease renewals, we also noted that the Department's policy and procedures manual with respect to renewals contained information that is no longer accurate and procedures that are no longer performed by the Division. In fact, the actual policies followed are not reflected in the manual. Discussion with Division officials indicated that there are no plans to review and update the manual due to insufficient resources.

### 5. Public Tender

19 of the 133 office leases were awarded based on a public tender at an annual lease cost of $1.9 million. The scope of our review did not include examining the tender process or award of these lease contracts.

### 6. No Authority for Lease Arrangement

One lease expired on 29 February 2000 but the new lease at a different location, entered into under Section 4 (2) of the *Public Tender Act*, did not commence until 6 April 2000. As a result, there was no authority for this lease arrangement between the period of 29 February 2000 and 6 April 2000.

## Accommodations Planning

A long-term accommodations plan is necessary to ensure the availability of accommodations needs of Government, to respond to these needs on a timely basis and to ensure the optimal use of existing facilities. Our review over this area indicated the following:

- In 1995, Government engaged the services of a consultant to facilitate planning in the West Block of the Confederation Building but no further planning of this nature has been completed.

- Information, such as the number of employees occupying various locations, whether leased or Government-owned, is not readily available and therefore, the Division does not have adequate information on the utilization of space.

- Government funded bodies are not being required to justify requests when renewing leases and, as noted above, are not providing the Division with such critical information as the number of employees occupying the leased space. As indicated earlier in the Report, 74 of the 133 office leases being managed by the Division at 2 March 2000 are month to month lease arrangements where, for the most part, the reason given for these lease arrangements is that tenants "need additional time to determine their future space requirements". Of these 74 month to month arrangements, 49 have been in effect since 1996 and earlier.

- The details of all lease contracts administered by the Division are maintained in an electronic database within the Division. The database, however, does not contain any information with respect to leases negotiated by government funded bodies which do not utilize the Division's services when acquiring or renewing leased space. As a result, the database is not considered complete with respect to all government funded bodies. Our review of the database indicated that, for the most part, the services of the Division are utilized by departments of government only.

As a result, space requirements of Government departments are not being adequately planned and acquired in a co-ordinated and systematic fashion. Thus, Government does not have a co-ordinated accommodations plan which considers current and future accommodation needs of Government to ensure the optimal use of space.

### Department's Response

***Leases on a monthly tenancy***

*The report notes that 56% of the leases currently being managed are on a month to month basis. Since 1994 Government has undergone many major initiatives and changes, in particular a downsizing of the civil service, Program Review, departmental restructuring and budgetary restraints. At this time a regionalization program is being implemented in response to a decision of Government in July.*

*Under such a dynamic environment, client departments have been unable to finalize their staffing and space requirements for a period of time sufficient for a tendering of their future space requirements, which generally has been a five (5) year term. As you are aware, this Department tenders on a gross rental rate basis, under which all costs, including tenant improvements, are at the landlord's expense. A lengthy amortization period is required to keep rental rates to a reasonable level.*

*An example of a client department which has gone through extensive restructuring since 1994 and continues to change is the Department of Human Resources and Employment (formerly the Department of Social Services).*

***Majority of lease arrangements did not result from a public tender***

*The Department continues to lease spaces acquired prior to November 1987, when the Public Tender Act and regulations were proclaimed. In addition, as noted in your report, there are numerous instances where a client department required a particular space, for service delivery reasons or proximity to related Departments, Agencies or services. It is also important to note that the Department leases space for natural resource staff who have to be in rural and isolated parts of the Province. Once a satisfactory space is acquired, usually with some difficulty, it is not practical to lease for new space on a rotational basis. There is an unsatisfactory risk involved with the process and redundant spaces can result.*

*Regardless whether the spaces were acquired through public tender, the Department makes a serious and continuous effort to ensure that all exemptions, lease renewals, indeed all lease matters are completed in compliance with the Act.*

***Planning of Government space requirements***

*The Department of Works, Services and Transportation has a limited mandate from Government to space plan on a long term basis, both within Government owned space and with respect to leased accommodations. Its mandate is to respond to identified and funded space requests of client Departments and Agencies. In essence, the Department is a service provider for space within established parameters.*

*For this Department to undertake more comprehensive and longer term space planning, it would have to be privy to the plans and priorities of Government. Further, it would have to be budgeted for such an exercise. To date, no Government has been inclined to plan long term space requirements, likely due to the financial costs and also on the basis that it would restrict its opportunities to change departmental structures or to create new ones.*

*Recent examples of changes by Government to Departments and Agencies are the creations of the Departments of Development and Rural Renewal, Human Resources and Employment, and the Regional Community Health and Services Boards. With respect to the dismantling of Departments and Agencies, examples are the elimination of the Department of Natural Resources and the Economic Recovery Commission.*

*To conclude, the current mandate of the Department is to be reactive, and not proactive, to space planning and allocation.*

***Status of Policy and Procedures Manual***

*It is noted that reference is made in your report on the lack of a Policy and Procedures Manual for leasing matters. I believe that your office, as the result of this audit and a number of others since 1994, has become familiar with the variety and complexity of space leasing issues and the numerous statutory and regulatory processes to be followed for each lease contract. To complete a manual which encompasses all the procedures for every type of lease option available to Government is an onerous and time consuming task, and one which cannot be delegated from the management level. Leasing matters are the responsibility of the Accommodations and Realty Services Division, an amalgamation in 1997 of the former Realty Services Division with the Accommodations and Leasing Division. For* *the foreseeable future no opportunity to complete a Policy and Procedures Manual is anticipated.*

*As there are a number of qualified individuals currently responsible for leasing matters and all lease contracts, extensions and renewals must be approved by senior executive, which activities are governed by the Public Tender Act and regulations, the lack of a manual is not critical to our operations and once resources become available we will complete the manual.*

## 3.27 Leased Accommodations

# Update on Prior Years' Report Items

## 4.1 Introduction

We conduct legislative audits to provide the House of Assembly with information on public sector accountability. Legislative audits are carried out to determine whether:

- public money is being properly collected and accounted for;
- expenditures are properly recorded and made for the purpose intended;
- accounts are properly kept;
- assets are adequately safeguarded; and
- accounting and management systems and practices are adequate.

These legislative audits also determine whether the activities of Government departments and agencies have been carried out in compliance with legislation, government policies and other authorities.

Monitoring the implementation of our recommendations is an important part of our obligation to report to the House of Assembly. Our objective is to monitor and report the degree to which positive change has occurred as a result of the implementation of recommendations in our prior years' reports.

In 1996, we commenced a formal process of monitoring and updating the comments and recommendations included in our previous Annual Report to the House of Assembly. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that issues are being adequately addressed or are no longer valid.

This chapter includes the results of these monitoring activities on our 1994, 1995, 1996, 1997 and 1998 Annual Reports.

## Department of Finance

### 4.2.1 Newfoundland Municipal Financing Corporation (1995 Annual Report, Part 3.13)

#### Introduction

The Newfoundland Municipal Financing Corporation is a Crown agency established under the authority of the *Municipal Financing Corporation Act*. The Corporation provides long-term financing for the capital requirements of municipalities. The Corporation raises funds to refinance municipal loans by the issuance of debentures in the bond market. In 1995, we concluded that there was inadequate information on the financial position of the Corporation and how the municipal debt affects the Province's financial position, assumptions used in cash flow forecasting were inaccurate and action to reduce loan arrears was not successful.

In 1997, 1998 and 1999, we updated our comments of the Corporation's action in response to our 1995 comments and recommendations. We reported that the cash position of the Corporation had improved due to municipalities refinancing loans with the banks and the Province advanced $17 million to mitigate arrears with respect to municipal loans. However, the Corporation had still not addressed the problem of delinquent accounts, the validity of certain cash flow assumptions was questionable and the Corporation's loan system still did not provide information on loan amounts paid by the Province and municipalities.

## Update

Although the Corporation has addressed some of the findings and recommendations made in our 1995 Annual Report, all issues have not been resolved as outlined below.

### Financial Position

Although its cash position has improved since our 1995 review, the Corporation has still not addressed the problem of delinquent accounts. Since 1995 the Province has provided the Corporation with a $22 million reserve fund to lessen the impact of the arrears and reduce the number and value of delinquent accounts. However, as Figure 1 shows, the delinquent accounts identified as loan installments due and unpaid continue to increase even though $21.8 million of the reserve fund has been allocated to 37 municipalities as at 31 October 2000 to assist them in meeting their debt obligations.

## Update on Prior Years' Report Items

**Figure 1**

**Newfoundland Municipal Financing Corporation**
**Financial Position**
**31 March**
**($ 000's)**

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Assets | | | |
| Cash | $ 6,559 | $ 10,171 | $ 15,798 |
| Loan instalments due and unpaid | 14,371 | 14,235 | 9,194 |
| Accrued interest receivable | 8,935 | 10,063 | 11,255 |
| Other investments | 34,523 | 29,147 | 10,957 |
| Loans receivable | 303,238 | 336,128 | 343,941 |
| Deferred charges | 1,308 | 1,485 | 1,607 |
| | $ 368,934 | $ 401,229 | $ 392,752 |
| Liabilities and Deficit | | | |
| Accounts payable | $ 41 | $ 43 | $ 84 |
| Accrued interest | 12,038 | 12,896 | 13,907 |
| Debenture debt | 349,456 | 372,802 | 365,239 |
| Deferred revenue | 8,366 | 8,675 | 6,041 |
| Reserve fund | 3,056 | 10,938 | 11,304 |
| Deficit | (4,023) | (4,125) | (3,823) |
| | $ 368,934 | $ 401,229 | $ 392,752 |

Source: Audited Financial Statements

### Cash Flow Forecasts

The Corporation's most recent cash flow forecast was prepared in October 2000 and consisted of both a 20-year and a 12-month forecast. The 20-year forecast projects a cash deficit of $29.0 million, assuming no additional borrowing and lending, by the year 2015 when all current loans receivable are collected and all debentures are repaid. This is an improvement over the 1995 forecast which projected a deficit of $39.0 million by 2013 under the same assumptions.

### Impact of Municipal Debt

The Corporation's accounting system is designed to provide information on loan amounts paid by the Province and municipalities. However, this feature is not being used because the format of the report has not been finalized.

Information received from the Department of Municipal and Provincial Affairs disclosed that for the year ended 31 March 2000 the Corporation was due to receive $76.9 million in principal and interest payments related to regular municipal debt repayments of which the Province paid $61.0 million (79%) of the $76.9 million while municipalities contributed $15.9 million (21%) including $12.9 million allocated from the reserve fund.

We note that the Province's portion has increased over the 1995 report when it contributed 65% of the total. This increase can partly be explained by the refinancing of the municipal portion of loans with the chartered banks.

## 4.2.2 Review of Government's Pension Plans (1997 Annual Report, Part 3.10)

### Introduction

In our 1997 Annual Report to the House of Assembly, we reported on our review of the pensions paid by the Province of Newfoundland Pooled Pension Fund from 1 January 1987 to 31 December 1996. The objectives of this review were to assess the adequacy of management systems and practices for determining eligibility for pension benefits and for monitoring continuing eligibility of beneficiaries, and the adequacy of financial and other information for reporting on the pensions managed by the fund.

Our review found that two of Government's pension plans already require deficiency payments while the two larger pension plans will be deficient in 2004 and 2019, pensioners were being hired for positions contrary to Government policy which requires approval by Cabinet, and there was no follow up on disability pensions to determine whether recipients could return to work.

As part of our annual monitoring process, we updated our 1997 Annual Report item in our 1999 Annual Report. This update indicated that the Province was taking measures to correct the above concerns.

### Update

In response to our 1997 findings and our 1999 update, the Department has indicated that the monitoring of pension plans is still ongoing and modifications have been made to the Public Service Pension Plan and the Teachers Pension Plan, including special payments, to address the unfunded liabilities. In 1997, 1998 and 1999, Government made special payments of $30 million each year to the Public Service Pension Plan and will make, in accordance with legislation, prior to 31 March 2000, special payments of $40 million per year, until the pre-1980 debt is retired. Legislation has also been enacted to make special payments to the

## Update on Prior Years' Report Items

Teachers' Pension Plan. As stipulated, in 1998 and 1999, Government made special payments of $166 million per year to the Teachers' Pension Plan and commencing in the year 2000, payments of $76 million per year will be made up to and including 2009. A final payment of $54.4 million will be made in the year 2010.

The Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan continue to rely on deficiency payments from the Province to assist in meeting pension obligations. In 1999 the Members of the House of Assembly Pension Plan was modified to reduce benefits and increase contributions from 8% to 9% of pensionable salary, effective 1 April 1999, as a first step in addressing the unfunded liabilities.

As at 31 December 1999, the Province of Newfoundland Pooled Pension Fund reported an unfunded pension liability of $3.1 billion. Figure 1 provides information on the $3.1billion unfunded liability.

**Figure 1**

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**Province of Newfoundland Pooled Pension Fund**
**Unfunded Liability**
**31 December 1999**
**($ Millions)**

| Pension Plan | Actuarial Present Value | Asset Value | Unfunded Liability |
|---|---|---|---|
| Public Service Pension Plan | $2,127 | $1,070 | ($1,057) |
| Teachers' Pension Plan | 2,131 | 353 | (1,778) |
| Uniformed Services Pension Plan | 177 | 0 | (177) |
| MHA Pension Plan | 44 | 0 | (44) |
| Total | $4,479 | $1,423 | ($3,056) |

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Source: Province of Newfoundland Pooled Pension Fund 31 December 1999 audited financial statements

Government continues to follow its hiring policy with regard to the employment of pensioners which directs that pensioners are not to be hired unless there is no other candidate with the appropriate qualifications for the position, and such appointments have been approved by Cabinet.

The Department continues to assess its option of establishing a tribunal to hear appeals of disability pension applications but, as yet, Government has not been asked to consider a definite proposal.

## Department of Education

### 4.2.3 Memorial University of Newfoundland (1994 Annual Report, Part 4.9)

**Introduction**

In 1994 and again in our updates in 1996, 1997, 1998 and 1999 we concluded that the Department of Education did not have an adequate system of accountability in place over grants paid to Memorial University of Newfoundland. In addition, although the University during 1999-00 received approximately $130 million from Government, there was inadequate accountability over this funding.

As a result of our review we recommended that a system of accountability be established over grants to the University. This system should include, but not be restricted to, the following components:

- Roles, responsibilities and duties of the Department of Education and Memorial University should be well defined and communicated. These should be included in legislation and further defined in policy.
- There should be adequate reporting to the Department of Education and the House of Assembly. This includes both financial and performance monitoring.
- The system of accountability should be strengthened by an independent audit process to assess the fairness of the University's representations on performance and to assess management systems and controls.

**Update**

In August 2000, we contacted the Department of Education to ascertain any progress on the comments and recommendations included in our 1994 report. As of November 2000, we have not received any response from the Department regarding our request. As reported in our1999 Annual Report, no action has been taken to establish an adequate system of accountability over grants paid to Memorial University of Newfoundland.

## Update on Prior Years' Report Items

## Department of Works, Services and Transportation

### 4.2.4 Vehicle Fleet Management (1997 Annual Report, Part 3.12)

**Introduction**

In 1997, we conducted a review of the Fleet Management Branch of the Department of Works, Services and Transportation to assess the adequacy of systems and processes used in the planning of the transportation needs of Government and in the acquisition, operation, maintenance, replacement and disposition of Government's light vehicles.

Minute of Council 1272-79 assigned the Department of Works, Services and Transportation with the responsibility for the efficient and effective management of Government's fleet of light vehicles including cars, station wagons, 4-wheel drives, vans and small trucks. A Fleet Management Branch was created within the Department's Maintenance Division to develop and implement policies and procedures to facilitate the management of these vehicles. The Branch is also responsible for providing support and direction to all Government departments in ensuring the effective implementation of, and compliance with, these policies and procedures. Each department has a designated Fleet Management contact person to act as a liaison with the Fleet Management Branch. In addition, the Department operates a network of 50 vehicle repair facilities (depots) and refueling sites located throughout the Province.

Our review indicated that the Department's processes for managing Government's Vehicle Fleet were not adequate. For example:

- While the size of the fleet had been decreasing, Government could not justify its present complement of light vehicles.
- Departments did not provide adequate documentation to justify the need for new vehicles acquired and there was no evidence that these vehicles were the most economical vehicles available to meet the transportation needs of Government. In addition, cost information to assess alternatives to purchasing vehicles was not available.

- The computerized information system used to facilitate the management of Government's light fleet produced information that was not timely, complete, accurate or understandable. As well, most users of reports produced by this system indicated that they did not review or analyze the information provided. As a result, the costs of maintaining Government's light vehicles and the extent of their usage was not being adequately monitored.

- The Department could not provide us with a listing indicating which department or which vehicles had been provided with the 1,448 computerized keys for refueling that had been issued which access the refueling site.

- For a sample of 12 vehicles which had been disposed of, 4 credit cards were identified which were still active even though the vehicles had been sold for several months. As a result of inadequacies of the Department's Computer System to capture information by transaction date, we could not determine whether charges were made to the inactive cards.

- There were often considerable delays in carrying out preventative maintenance work.

- There was no formal vehicle replacement policy and information on the deferred costs associated with maintaining vehicles beyond their economic lives was not known.

- There was no system to ensure vehicles are promptly disposed of.

## Update

In August 2000 we asked the Department of Works, Services and Transportation to inform us as to the progress made on our 1997 recommendations. The Department's response to each of these recommendations is outlined below:

### Transportation Planning

#### 1997 Recommendation

*The transportation needs of the departments should be reviewed to determine the number and type of light vehicles required by Government.*

### Action Taken

The Department indicated that they have completed a review of all vehicles in the fleet to obtain information on each vehicle including the amount of usage, type of usage, driver and driver job description. The Department further reports that since 1998-99, requests for replacement vehicles are assessed against the above information. Based on this data, requests have been altered by Fleet Management who have become more pro-active.

### Vehicle Acquisition

### 1997 Recommendations

*The Department of Works, Services and Transportation should ensure that departments provide adequate documentation to justify vehicle acquisitions, including demonstrating that the type of vehicle requested is needed for a particular position(s), that the transportation need cannot be met by the department's existing fleet complement, and the alternatives to acquisition are considered.*

*Departments should clearly demonstrate the need for the type of vehicle being requested in relation to the required use.*

*The departments requesting approval for vehicle acquisitions should provide adequate documentation to demonstrate that, where appropriate, alternatives to acquisition were considered.*

*The Department should develop a reporting system that adequately records information on the costs of alternative methods of transportation.*

### Action Taken

The Department indicated that effective 1998-99, Fleet Management now requires that all requests for vehicles, for other than basic transportation, have documentation justifying the type of vehicle requested. The Department also informed us that requests are monitored against previous usage to determine if past usage justifies having a vehicle. In addition, before a vehicle is purchased, a mechanical condition report is undertaken on the vehicle to be replaced and only those vehicles in poor mechanical condition are approved for replacement. As well, all requests for additions to the vehicle fleet must include a justification letter from the Department requiring the vehicle.

The Department also indicated that it does evaluations on all requests for rental of vehicles in excess of 30 days. To date, this is the only alternative in place for situations where low usage is estimated. For transportation needs of shorter durations, the individual department is required to find practical solutions.

The Department also informed us that, while vehicle leasing is a popular alternative for the general public, it is not recommended as an alternative for most applications in the Government fleet. The Department cited the following reasons:

- Manufacturers' incentives are only available on normal vehicle purchases by Government;
- At the end of the lease, damages to vehicles may result in added costs; and
- Over a three year period, leasing costs are higher than the normal purchase option.

### Vehicle Operations

### 1997 Recommendations

*The Department should ensure that the information necessary to manage Government's vehicle fleet is available.*

*Utilization and costs of operating Government's vehicle fleet should be adequately monitored and controlled.*

*The Department should ensure controls over the access to fuel at the government-owned refueling sites are adequate.*

### Action Taken

The Department indicated that the new on-line Equipment Management System (EMS) has eliminated many of the problems and concerns related to the previous batch information system. As a result, information is current, accurate and in a format that provides the necessary data to manage Government's vehicle fleet. In addition, the new system is Access Based and permits users to generate special reports, as required.

The Department also informed us that utilization and costs of operating each vehicle, vehicle type or class will be monitored in the new EMS. However, as the data base is new it does not yet contain sufficient information to identify trends to be used in decision making. It is expected that after several years of data collections, the system will produce more useful information.

In its current year's response, the Department reported that in 1999 they completed an extensive analysis of users and usage of the fleet. This report was based on information contained in the EMS as at 31 March 1998 and a survey distributed to all Regional Directors in 1997.

In addition, the Department indicated that they have corrected the lack of controls over access to fuel at Government-owned refueling sites.

### Vehicle Maintenance

### 1997 Recommendations

*Departments should ensure that vehicles are maintained in accordance with Fleet Management policies and procedures.*

*The Department should ensure that the productivity levels at the depots are at an acceptable level.*

### Action Taken

The Department indicated that it reviewed its Maintenance program and made numerous changes to have repairs and preventive maintenance completed in a more timely manner. Since 1998-99, Fleet Management has required that departments getting repairs done outside Government facilities are required to forward documentation to Fleet Management so that it is recorded on the EMS for that particular vehicle.

In addition, the Department informed us that the EMS records each mechanic's time on repair codes and that this information will be used to access productivity for the facility and mechanics.

### Vehicle Replacement

### 1997 Recommendation

*The costs of maintaining vehicles beyond their economic lives should be determined for purposes of establishing a formal Government-wide replacement policy.*

### Action Taken

The Department reports that Fleet Management has been proactive in only approving replacement vehicles where usage and mechanical assessment justify. It is reported that this has resulted in changes and cancellations to proposed tenders at the Government Purchasing Agency.

The Department indicated that the new on-line Equipment Management System would have a replacement module which is capable of generating a listing of vehicles which should be considered for replacement. The vehicles identified on this listing would then undergo a complete mechanical assessment and a usage/needs analysis before a final decision regarding replacement was made.

In addition to the foregoing, the Department informed us that the new EMS would compare the cost of repair against the current value of the vehicle.

The Department now reports that the development of the EMS replacement module has not proceeded in a timely manner, and adjustments still remain with the software developer to complete. They state, however, that improvements have been made to the mechanical assessment form. This improved form is expected to give a better indication of possible repairs on a vehicle which could be expected within the next year or so. The Department feels that the form will give added weight to the evaluation of the mechanical condition of the vehicle and reduce the possibility of maintaining a vehicle beyond its economic life.

### Vehicle Disposition

### 1997 Recommendation

*Fleet Management should monitor the timeliness of dispositions to ensure that this source of revenue is received as soon as possible. In addition, information systems should be promptly updated to reflect vehicle dispositions.*

### Action Taken

The Department indicated that vehicles are disposed of in a timely manner in the Avalon region, due to the availability of on-going auction services in this area. However, in other areas of the Province, only annual auctions are available which provides the best cost/benefit option.

## Department of Industry, Trade and Technology

### 4.2.5 The Economic Diversification and Growth Enterprises Act (1996 Annual Report, Part 3.3)

**Introduction**

One Government initiative toward the creation of a competitive private sector is the *Economic Diversification and Growth Enterprises Act* which became effective on 1 January 1995. Under this Act, the Economic Diversification and Growth Enterprises (EDGE) program provides significant tax incentives to new and expanding corporations that meet a number of qualifying criteria. The Act is administered by the Department of Industry, Trade and Technology.

The EDGE program is complimentary to other support and development programs currently available to businesses in the Province. The underlying objective of these programs is to make the Province one of the most attractive investment locations in North America. The intent of the EDGE legislation is to encourage private sector job creation and diversification of the Provincial economy.

Corporations must apply to the Department for EDGE designation. Each application is evaluated by a board of public and private sector representatives which makes recommendations respecting the application to the Lieutenant-Governor in Council. The Board is currently comprised of six members, three of whom represent the private sector. The Department has stated that 177 EDGE applications had been received by the Department as at 10 November 2000. Cabinet has approved 71 of these applications. Of the remaining 106 applications, 63 have been rejected, 6 have been deferred and 37 others have had their EDGE status revoked. The corporations that meet the criteria are designated as EDGE Corporations. There are currently 41 active EDGE companies in operation.

The Department estimates that, for the 71 applications approved, the EDGE program will create 3,656 permanent jobs through the investment of $1.14 billion in capital.

In 1996, we conducted a review which provided for an examination of legislation and administrative procedures respecting the EDGE program. We made specific recommendations relating to the review of legislation, the compliance with legislation and the implementation of policies and procedures.

## Update on Prior Years' Report Items

### Update

The Department has taken action on some of our outstanding recommendations as reported in our 1999 follow-up review; however, some still need to be addressed as outlined below:

**Review and Evaluation of the Act**

Although some amendments to the EDGE Act were assented to on 15 December, 1998, the amendments did not address items in our recommendation regarding the review and evaluation of the Act. A consultants report to the Department in March 1997 stated that *"...recommendations of the Auditor General in terms of review and evaluation of the Act should be implemented."* Our current review indicated that the Department has still not performed a thorough review and evaluation of the Act as recommended.

**Compliance with the EDGE Act**

We recommended that the Department should comply with the EDGE Act. Our follow-up reviews in previous years indicated that, while the Department had documented certain monitoring procedures to help ensure compliance with the Act, the procedures were not sufficiently detailed to ensure compliance with Sections 3 and 5 of the Act. Our follow-up review last year indicated that Section 5 of the Act was amended in December 1998 to remove a list of detailed requirements EDGE applicants were required to provide. These information requirements are now included in a procedures manual. The Department has prepared a checklist to ensure the basic program criteria in Section 3 have been satisfied.

**Administration of the EDGE Program**

Our recommendation respecting EDGE application receipt, evaluation and approval was that procedures should be implemented to ensure all information is received and guidelines should be established to ensure all applications are evaluated on a consistent basis. Our follow-up review last year of documented procedures regarding the receipt and evaluation of information under Section 3 of the Act indicated that a checklist had been implemented to ensure basic program criteria have been satisfied. In addition, the procedures manual included a list of information required to be included in a business plan. The procedures manual, however, still does not address our concerns for consistent evaluation in areas such as what constitutes, per Section 3, a *"substantial net economic benefit to the Province"* and that the venture was undertaken due to EDGE incentives.

## 4.2.6 The Privatization of Newfoundland Hardwoods Limited (1997 Annual Report, Part 3.16)

**Introduction**

In our 1996 Annual Report to the House of Assembly, we reported on the results of our review of the privatization of Newfoundland Hardwoods Limited (the Corporation). This review disclosed that although the assets of the Corporation were sold in August and September 1995, as of October 1996, the transactions had yet to be finalized, audited financial statements for the year ended 31 March 1996 had not been released, and the Province had only received $5.6 million of the $7.0 million in proceeds.

In our 1997 Annual Report to the House of Assembly, we again reported that many of the issues reported were still outstanding.

In 1998 we completed and reported on a follow up review of the privatization of Newfoundland Hardwoods Limited. This review disclosed that audited financial statements had been completed to 31 March 1998; however, there were still issues regarding the wind-up of the pension plan and the removal of storage tanks.

For the fiscal year ended 31 March 1999, Newfoundland Hardwoods Limited recorded revenues of $134,000 from a gain on the wind-up of its pension plan, interest and miscellaneous. The Corporation had approximately $776,000 in its bank account and owed $54,000 to creditors.

**Update**

For the fiscal year ended 31 March 2000, four of the five storage tanks were removed at a cost of $186,000. The Corporation had only one storage tank containing contaminated soil left at the site.

In addition, the Corporation paid dividends of $477,000 to the Province. As at 31 March 2000, the Corporation had approximately $129,000 in its bank account and owed creditors approximately $54,000.

## 4.2.7 ACF Equity Atlantic Inc. (1998 Annual Report, Part 3.20)

**Introduction**

In April 1996, the Ministers of Industry, Trade and Technology, and Finance entered into a Unanimous Shareholders' Agreement (the Agreement) with seven banks (amended in 1997 to include an eighth bank), and the three other Atlantic Provinces. The Agreement provided for the establishment of ACF Equity Atlantic Inc. (ACF). The primary mandate of ACF is to make direct equity or quasi-equity investments in small and medium sized companies in Atlantic Canada that appear to have moderate or significant growth potential. The life of ACF will be limited to ten years with provision for three one-year extensions subject to approval by a majority of the shareholders.

Under the Agreement, total capital funding for ACF of $30 million was committed by the eight banks ($10 million), the four Atlantic Provinces ($10 million), and the Atlantic Canada Opportunities Agency ($10 million). In the case of the four Atlantic Provinces, each Province's share of the aggregate Provincial share commitment of $10 million was prorated on the basis of population. Newfoundland's investment in ACF was expected to be $2.39 million.

In 1998, we conducted a review of ACF Equity Atlantic Inc. which included an analysis of the terms of the Agreement, the current status of the Province's investment in ACF and the process used by the Department of Industry, Trade and Technology to monitor the Province's investment in ACF.

Our review indicated that the Department's process to monitor the Province's investment in ACF was not adequate. For example:

- The Department was not receiving quarterly updates from ACF as had been agreed upon.
- Information to be supplied by ACF was not routinely forwarded to the Department but appears to have been provided as a result of requests from the Department.
- The reports received varied considerably both in their presentation and in the amount of information provided.

## Update

In August 2000, we asked the Department of Industry, Trade, and Technology to inform us as to the progress made on our 1998 recommendation relating to the monitoring of the Province's investment in ACF Equity Atlantic Inc. In its response, the Department indicated that it does receive regular reports from ACF and that these reports provide appropriate information required to monitor the Province's investment. At present, the Province's investment in ACF is $1.673 million. The Province was to increase its investment in ACF to $2.39 million by April 2000. However, this decision has been deferred until 2001.

## Department of Health and Community Services

### 4.2.8 Faculty of Medicine of Memorial University of Newfoundland (1997 Annual Report, Part 3.19)

**Introduction**

In 1997, we performed a review to determine whether the Department of Health has an adequate system of accountability over the grants provided to the Faculty of Medicine.

We concluded that the Department of Health did not have an adequate system of accountability over the grants provided to the Faculty of Medicine. More specifically, the Department was not requesting sufficient information to determine whether the Faculty was effectively spending operating grants for the intended purposes. Such information would include interim and annual audited financial information, and information on program objectives and accomplishments. In addition, we concluded that the Department had not performed any audits of the Faculty's operations to assess the adequacy of management systems and controls, and compliance with authorities.

**Update**

In August 2000, we contacted the Department of Health and Community Services to determine if any action had been taken on our 1997 recommendations. As we reported in 1999, the Department has made progress on the recommendations made in 1997. The status of action taken is outlined below:

**1997 Recommendations**

*The Department should establish a system of accountability over grants paid to the Faculty of Medicine. This system would include adequate reporting to the Department and the House of Assembly on both the financial and operational performance of the Faculty.*

*The Department should perform periodic audits of the Faculty's operations.*

**Action Taken**

The Department reported that they have implemented a budget monitoring process for the Faculty of Medicine. Quarterly financial reports are now required to be submitted to the Department for review and follow-up with the Faculty. The reports provide for a comparison of budget to actual with explanations for any variances noted. These reports are to be used as a basis for budget review and discussion with the Faculty. The first report due was for the quarter ending 30 September 2000.

With respect to the recommendation on periodic audits, the Department indicated that they are addressing this issue as part of the overall audit plan currently being developed by the audit section of the Financial Services Division. As reported in the 1999 response, the Department, in developing its audit plan, will be reassessing the timing and scope of a financial and operational review of the Faculty of Medicine's Undergraduate and Postgraduate Programs.

## 4.2.9 Health Labrador Corporation (1998 Annual Report, Part 3.16)

### Introduction

In 1998, we performed a review of the Health Labrador Corporation. Our review was directed primarily to the systems and transactions related to management practices, which included financial position, information systems, budgeting, compliance with the *Hospitals Act*, purchasing, capital assets, inventory, and human resources.

In 1998, we concluded that there were significant weaknesses in all areas reported on. More specifically, there were serious financial problems as indicated by the operating deficits over the years, insufficient cash flow, incomplete and inaccurate financial information, inadequate budgeting process, compensation to senior officials above government policy and non-compliance with the *Hospitals Act* regarding the submission of financial statements and budget. Purchasing practices were insufficient, in such matters as not having sufficient information on the cost of air ambulance services and not complying with the *Public Tender Act*. The controls over capital assets were not adequate and established controls over inventories were not being utilized. Human Resources did not maintain adequate documentation on job competitions and employee leave, and did not conduct job appraisals in accordance with Board policy.

### Update

In August 2000, we contacted the Health Labrador Corporation to ascertain their progress on the comments and recommendations included in our 1998 report. As of November 2000, we have not received any response from the Corporation regarding our request.

As part of our annual monitoring of all Crown agencies of the Province we obtained a copy of the Corporation's 1999 audited financial statements. These financial statements were required to be audited by 30 June 1999; however, the statements were not completed until 15 September 2000, one-and-a-half years after year end. The 2000 audited financial statements have not been received as of our report update.

### Update on Prior Years' Report Items

A review of the 1999 audited financial statements indicated the financial position and operations of the Corporation have deteriorated since 1997. As at 31 March 1999, the Corporation reported a bank indebtedness of $1.9 million as compared to a cash balance of $2.0 million in 1997. Since 1997, the Corporation's working capital position has declined by over $3.0 million. The Corporation's accumulated operating deficit increased from $2.0 million in 1997 to $3.5 million in 1999, an increase of $1.5 million. During the 1998 and 1999 fiscal years, the Corporation reported net operating losses of $1.5 million, which included a one time budget deficit funding grant from the Department of Health and Community Services for $1.7 million to reduce the accumulated deficit up to 31 March 1998. Without this funding the accumulated operating deficit for 1999 would have been $5.2 million.

## Department of Development and Rural Renewal

## 4.2.10 Monitoring Regional Economic Development Boards (1998 Annual Report, Part 3.7)

### Introduction

In 1998, we performed a review at the Department of Development and Rural Renewal relating to the regional economic development boards. Our objective was to report on whether all 20 boards had been established and had developed strategic economic plans, and whether systems and procedures were in place to monitor the activities of the boards.

We concluded that, at the time of our review, 18 of the 20 boards had completed and submitted their strategic plans.

We also concluded that direction provided by Cabinet on each of the recommendations of the Task Force on Community Economic Development was not always followed. Performance contracts and annual progress reports were not being tabled before the House of Assembly. Additionally, it had not been determined whether the total administrative costs of the new zonal boards was less than the administrative costs of the previous organizational arrangements.

We further concluded that the Department was not always receiving the information it is required to receive from the boards to keep it apprised of their progress. As a result, the Department did not know whether all of the zones were complying with their performance contracts.

## Update on Prior Years' Report Items

**Update**

In November 2000, the Department of Development and Rural Renewal advised us as to the progress made in addressing comments and recommendations made in the 1998 Report.

We were informed that all 20 regional economic development boards (REDBs) have been established and each has tabled strategic economic plans for their economic zones with the Federal and Provincial governments.

The strategic economic plans form the basis of annual work plans that are developed by each board and approved by the Federal and Provincial governments. The total administrative cost of operating the REDBs in 1999-00 was reported to be just under $3.7million. This was indicated to represent a significant administrative saving as compared to previous organizational arrangements which required $5.4 million in annual support from the Federal and Provincial governments prior to the formation of the REDBs in 1996.

Budgeting policies and procedures for control over the operating budgets of the REDBs are now indicated to be in place, complemented by a monitoring and compliance review system for the performance contracts. All performance contracts require the submission of semi-annual reports on REDB activities, including an accounting of their financial position. These are reviewed against eligible operating costs and approved activities as embodied in the annual work plan, prior to the release of the next semi-annual operating grant. REDBs are also subject to a separate financial and operational review on an annual basis to ensure REDB activities and actions are consistent with their performance contracts. Furthermore, all REDBs must submit an annual (externally) audited financial statement of their affairs to the Federal and Provincial governments.

The Department also indicated that a comprehensive evaluation framework for the second generation of performance contracts, encompassing macro economic performance indicators, is presently being test piloted in one REDB and is expected to serve as a model for all REDBs commencing next fiscal year.

As well, regular reports are provided to the House of Assembly, through various means, on the overall status of the REDB initiative. Commencing in the next sitting of the House of Assembly, the performance contracts and annual progress reports of each REDB will be tabled as a comprehensive package before the House.

It was further indicated that the *Municipalities Act* was amended in 1999 to give municipalities an explicit mandate for economic development, consistent with an earlier recommendation of the Task Force on Community Economic Development.

The precise delineation of all 20 economic zones has now been agreed to by all REDBs. The Department expects Cabinet to ratify the final delineations in the near future.

## Department of Fisheries and Aquaculture

### 4.2.11 Aquaculture Program (1998 Annual Report, Part 3.13)

**Introduction**

In 1998, we performed a review of the aquaculture program.

We concluded that there had been little advancement over the previous ten years in terms of the level of activity and significance of production levels, and that while the number of licences was slowly increasing, the number of productive, utilized sites remained small. It was also noted that the lack of required licensing documentation and related analysis, coupled with the inspection and monitoring problems referenced in our 1998 report, were contributing factors in the lack of development. As well, data collection systems to measure progress towards achieving the Department's objectives were not adequate. In addition, it was noted that a report required by Cabinet discussing the options and feasibility of attracting the private sector to assume operations of the Belleoram scallop hatchery was never made.

It was also concluded that there was no legislative requirement for reporting to the House of Assembly on the results of the aquaculture program and that there had been no annual departmental report submitted since 1993.

Furthermore, accountability reporting by licensees to the Department, and related monitoring by the Department was not adequate. Also, compliance with the Aquaculture Licensing Policy and Procedures Manual was lacking in several areas of licensing and inspection, and required documentation was absent. A review of the licensing and inspection process indicated that application turnaround time exceeded the Department's documented time frames and that there were no operational plans with regard to inspection frequency targets and timing.

## Update on Prior Years' Report Items

In relation to the Canada-Newfoundland Economic Renewal Agreement, we concluded that authorization forms completed for the projects did not provide complete details of the proposed projects, some expenditures claimed by the contracting parties were not adequately supported, and approved projects were not adequately monitored.

**Update**

In October 2000, the Department of Fisheries and Aquaculture advised us as to the progress made in addressing comments and recommendations made in the 1998 report.

### 1. Belleoram Hatchery

### 1998 Recommendation

*The Department should comply with Cabinet's direction with regard to the operations of the Belleoram scallop hatchery.*

### Action Taken

The Department indicated that in July 1999, an information paper was submitted to Cabinet as an update on the operation and privatization of the Belleoram scallop hatchery. It was stated in the paper that the Department would fund the operation to 30 September1999, with the resulting level of success to determine options for privatization of the facility. In 1999, problems were again encountered and only 350,000 seed were placed in the nursery. In March 2000, the Department called for proposals to divest of the hatchery, with preference being given for its continued operation as an aquaculture facility. No offers to this call for proposals were received. A second call for proposals was made without any preferred final use being stipulated. The Department received one proposal, which it deemed to be inadequate. We were advised that the Department will continue to maintain the facility in a secure manner and review the options for divestiture in six months.

### 2. Licensing and Inspection

Several recommendations were included in the report with respect to aquaculture licensing and inspection. The recommendations and the Department's update on efforts to address these recommendations are outlined as follows:

## Update on Prior Years' Report Items

### 1998 Recommendations

*All information required to be received in support of an application for an aquaculture licence should be received and assessed prior to a licence being approved.*

*The Department should address the delays in application turnaround time relating to the licensing process.*

*Reports used by inspectors should be revised to ensure compliance with the* Aquaculture Act *and the Aquaculture Licensing Policy and Procedures Manual.*

*Inspections should be planned and completed to meet the objectives detailed in the* Aquaculture Act *and the Aquaculture Licensing Policy and Procedures Manual.*

### Action Taken

The Department indicated in its response that a "checklist" control form has been initiated and that all applications continue to be thoroughly reviewed and assessed, before recommendations are formulated and presented at the Aquaculture Licensing Committee. Meanwhile, referral agencies still have 30 days to respond to the Department's inquiries.

It was indicated by the Department that improvements have been made to the turnaround time within the approval process and that the Department is informing the aquaculturalists that six months is a realistic time-frame for technical reviews and assessments, including the review by the 15 agencies involved in the process.

The Department also advised that inspection forms were revised. Also, work plans are prepared in advance taking into account requirements of the Policy and Procedures Manual. Regular communications are maintained and workshops are held with inspectors. It was noted by the Department that the policy and procedures have been revised and are being followed to ensure that potential sites are inspected prior to issuance of a license, and again when marked buoys are placed in the water. The Department is still of the view that surprise inspections are not desirable or warranted.

### 3. Aquaculture Component Canada-Newfoundland Agreement on Economic Renewal

**1998 Recommendations**

*The requirements of the Canada-Newfoundland Economic Renewal Agreement should be complied with.*

*Projects approved under the Agreement should be adequately monitored.*

**Action Taken**

The Department indicated that authorization forms continue to be completed as required. As well, tenders are called, where required, in conjunction with the Government Purchasing Agency under projects delivered by the Department. Projects delivered by third parties continue to follow procedures similar to those followed by Government where goods and services are being acquired. Sites visits have been documented in project files.

It was also indicated that detailed supporting documentation for all expenditures deemed eligible for reimbursement is obtained from each project proponent and maintained in the project file.

The Department advised that project managers and committees (Coordinating and Implementation) continue to monitor all active projects. Quarterly reports are prepared for each project with an annual report prepared summarizing activity in each component of the Agreement. An annual review is held, bringing together proponents, project managers, committees and officials from agencies and government departments involved with delivery of projects. The Department advised that this series of presentations and subsequent discussion serves as a monitoring tool.

## Department of Government Services and Lands

## 4.2.12 Food Premises Inspection and Licensing (1998 Annual Report, Part 3.15)

**Introduction**

In 1998, we performed a review at the Department of Government Services and Lands of the Food Premises Inspection and Licensing program.

## Update on Prior Years' Report Items

We concluded that some food premises were operating without a valid licence and that licenses were issued even though the documentation required under the *Food Premises Regulations* to assess the food premises for licensing was not on file. In addition, we found that the Government Service Centre could not demonstrate whether food premises were fully complying with the Regulations because the Environmental Health Inspection Report used by inspectors was not always fully completed.

The Memorandum of Understanding was entered when the Government Service Centre became responsible for food inspection and licensing on behalf of the Department of Health and Community Services. The Government Services Centre was not complying with the Memorandum of Understanding in that food premises were not being inspected the required number of times each year. Also, we could not determine whether the number of inspections currently prescribed for the various types of food premises was appropriate and that the Department of Health and Community Services had not developed risk assessment tools and risk management techniques to rationalize how frequently food premises should be inspected. As well, food premises inspections relating to licence renewals were not typically completed between March and November of each year and, therefore, inspections were not representative of year round operations of the food premises.

It was also concluded that the Department of Health and Community Services and the Health and Community Services Boards were not receiving sufficient information from the Government Service Centre on the inspection of food premises in the Province.

The Department of Health and Community Services requires the development and maintenance of an on-going, up to date, listing of all active food establishments to facilitate inspections. Two of the five Government Service Centre Regions did not have a database of licensed food premises, while the databases currently utilized by the remaining three Regions were not current and accurate. Also, follow up inspections of previously identified health hazards were not always performed.

We also found that policies being followed by the Government Service Centre may not reflect current legislative requirements and that there had been no review of Department of Health and Community Services' policies relating to the inspection and licensing of food establishments since they were approved in 1994.

As well, the Government Service Centre did not have clear established performance indicators or monitoring procedures for its inspection and licensing activity.

## Update on Prior Years' Report Items

The lack of clear operational objectives for scheduling and monitoring of inspection and licensing activity at the Government Service Centre contributed to the overall failure to discharge inspection and licensing responsibilities.

## Update

### 1. Compliance with Food Premises Regulations

**1998 Recommendations**

*Reports used by the inspectors should be revised to ensure compliance with the* Food Premises Regulations.

*The Government Service Centre should comply with the* Food Premises Regulations.

**Action Taken**

In a joint response by the departments of Government Services and Lands, and Health and Community Services, it was indicated that a new food premises inspection report has been developed by the Department of Health and Community Services with input from staff of the Government Service Centre and regional Health and Community Services Boards. The new report focuses on critical hazards and non-critical hazards that are not being properly controlled in food premises. The new report is based on the requirements set out in the *Food Premises Regulations*, as well as documented causes of food borne illness.

The new report has been designed to incorporate a checklist along with a narrative from the inspector. Critical and non-critical hazards have been coded to allow for future tracking of activities in all food premises in Newfoundland and Labrador. The new report format will be implemented during this fiscal year.

It was indicated that the process of using manual checks and controls in the system, as they previously existed resulted in things being overlooked. With full completion and implementation of the AMANDA Food Licensing Folder within the Application Management System, the ability will exist to address the issues identified in the 1998 report.

Full completion is expected by 1 April 2001.

## 2. Compliance with Memorandum of Understanding

### 1998 Recommendation

*Risk assessment tools, risk management techniques and complete up-to-date guidelines and standards of accepted practice should be developed for the Government Service Centre in accordance with the Memorandum of Understanding.*

### Action Taken

The Department of Health and Community Services advised that a document entitled *Food Premises Inspection Program: Inspection Frequency Risk Management Initiative* has been drafted and has undergone review and revision since the first draft of the document was completed at the end of March 2000.

It was indicated that a risk assessment worksheet and a new inspection report have been developed. In addition, the focus of food premises inspections will be on critical hazards, which can lead to food borne illness if not properly controlled. However, non-critical hazards related to regulatory requirements and good personal hygiene practices will also be considered during an inspection. The new inspection report will give an inspection score which will be used in the risk assessment worksheet to determine the overall risk of food premises.

The new inspection report is currently being formatted for use in the field by Government Service Centre inspection staff. All food premises are scheduled to be inspected using the new inspection report this fiscal year. At that time, a risk assessment worksheet will also be completed for food premises. The risk assessment worksheet will evaluate inspection history, patron characteristics, food risk and food preparation to produce a risk score for food premises.

During the 2001-2002 fiscal year, the frequency of inspections of food premises in Newfoundland and Labrador will be based on risk as provided in a new Inspection Frequency Guide.

### 1998 Recommendation

*The Government Service Centre should comply with the requirements of the Memorandum of Understanding.*

### Action Taken

The Department of Government Services and Lands advised that the MOU was updated as of December 1999 and that an annual review of the MOU is planned. Additionally, the Department of Government Services and Lands, the Department of Health and Community Services and the Medical Officers of Health at the Regional Boards have agreed to meet at regular intervals to discuss matters of mutual concern with respect to program areas and the MOU.

### 1998 Recommendation

*The Department of Health and Community Services should review their responsibilities under the Memorandum of Understanding to ensure they are complying with its requirements.*

### Action Taken

We were advised by the Department of Health and Community Services that this has been accomplished through the review process associated with updating the MOU.

### 1998 Recommendation

*The Memorandum of Understanding should be reviewed immediately to ensure it reflects the current practices and issues of the Department of Health and Community Services, the Health and Community Services Board and the Government Service Centre. The Memorandum of Understanding should be reviewed annually thereafter as required by the Memorandum of Understanding.*

### Action Taken

As noted earlier, the MOU was updated as of December 1999 and an annual review of the MOU is planned.

## 3. Adequacy of and Compliance with Policy and Procedures

### (a) Adequacy of Policy and Procedures

### 1998 Recommendations

*The Department of Health and Community Services should ensure that their policies are complete and current.*

## Update on Prior Years' Report Items

*The Department of Health and Community Services should develop standard health guidelines that Government Service Centre inspectors can use to assess whether certain food premises are exempt from the* Food Premises Regulations. *The standard health guidelines should be documented in the Department of Health and Community Services, Environmental Health policy and procedure manual.*

*The Government Service Centre should continue to follow Department of Health and Community Services' policy and procedures with respect to temporary food premises until the Department develops standard health guidelines.*

### Action Taken

The Department of Health and Community Services advised that Standard Health Guidelines (SHGs) have been developed for vending machines, the home based food preparation industry, not for profit organizations and temporary facilities and that the SHGs have been reviewed by the Government Service Centre and regional Health and Community Services Boards. The SHGs will be formatted for use by the public and GSC inspection staff in the near future.

We were also advised that work has commenced on the following policies and guidelines.

- Food Banks
- Salad Bars
- Bulk Food Premises
- Transportation of Potentially Hazardous Foods
- Counter Freezers
- Sale of Wild Game

In addition, a bottled water policy/guideline will be based on the National Bottled Water Code being drafted by a working group of the Canadian Food Inspection System Implementation Group.

Following the completion of the above policies, additional policies will be reviewed and updated where appropriate.

The Department of Government Services and Lands advised that the frequency of inspections is a matter that will continue to be reviewed as they move to risk based inspections.

## (b) Licensing of Food Establishments

### 1998 Recommendation

*The Government Service Centre should comply with the Department of Health and Community Services' policy and procedures.*

### Action Taken

The Department of Government Services and Lands indicated that deficiencies identified in the 1998 report pertained to a large degree to the adequacy of the Department's information systems and that the implementation of the Application Management System has progressed favourably. In particular, it was indicated that:

- The status of new applications can be readily checked to immediately determine current stage of processing.
- The status of new applications can be readily checked to immediately determine which Environmental Health Officer has been assigned the file.
- Licences which have been issued or renewed can be sorted by:

  Regional office
  Environmental Health Officer
  Issue of renew dates
  Type of food establishment (e.g. class 1, class 2)

- Inspection requests for a particular food establishment, complaints for a particular food establishment, and the date of last inspection for a particular food establishment can be logged directly into the licence folder.
- Inspections can be electronically scheduled and assigned to Environmental Health Officers' To-Do lists.

Since the go-live date of 3 April 2000, the Department advised it has logged, as of 11 October, 1,036 food establishments in this manner and that it expects to have all food establishments recorded in and monitored by this system by 1 April 2001.

### (c) Inspection and Documentation of Food Establishments

**1998 Recommendation**

*The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.*

**Action Taken**

The Department of Government Services and Lands advised that management can now monitor inspectors' field activities effectively using the Application Management System.

### (d) Investigation of Complaints

**1998 Recommendation**

*The Government Service Centre should comply with Department of Health and Community Services' policy and procedures.*

**Action Taken**

In addition to the standardization of approach embodied in the Application Management System, the Department of Government Services and Lands advised that the training to be provided by the Department of Health and Community Services in support of the change over to the Risk Based Inspection Process will also enhance the Government Service Centre's performance in this respect.

## 4. Performance Indicators and Monitoring Procedures

**1998 Recommendations**

*The Government Service Centre should establish clear operational goals and objectives with respect to its food inspection and licensing program. Established goals and objectives should reflect the broader strategic objectives of the Department of Health and Community Services and Health and Community Services Boards.*

*The Government Service Centre should properly plan and schedule its inspection and licensing activity to ensure its operational goals and objectives are achieved. The Government Service Centre should ensure management participates in the planning and scheduling of inspection and licensing activity.*

**Action Taken**

The Department of Government Services and Lands advised that it has worked towards this objective through its Strategic and Divisional Planning efforts. The December 1999 Strategic Plan Document "Creating the Future" established broad strategic goals and objectives for the Department. Annually, each division within the Department prepares a three year Divisional Plan. It was indicated that the concerns identified in the 1998 report are and will continue to be addressed through this process.

## Department of Tourism, Culture and Recreation

### 4.2.13 Agency of Record (1998 Annual Report, Part 3.26)

**Introduction**

In October 1993, the Department of Tourism, Culture and Recreation contracted an agency of record to serve as the sole advertising agency for tourism promotion in the Province. The agency of record was to provide advertising, marketing and research services, and print and electronic production capabilities to the Minister to promote Newfoundland and Labrador as a tourism destination.

In 1998, we conducted a review of the contract terms between the agency of record and the Department of Tourism, Culture and Recreation to determine how the agency of record was selected and whether formal agency review and performance appraisals were completed.

Our review concluded that the Department did not follow the spirit and intent of Government's proposal call process when it extended contracts with the agency of record for periods beyond those outlined in the original agreement. In addition, the review and performance appraisals which were required before the contract was to be extended were not always done.

**Update**

In August 2000, we asked the Department to inform us as to the progress made on our 1998 recommendation that it should follow the spirit and intent of Government's public proposal call process and not renew contracts for periods beyond those outlined in the original agreements. In its response the Department indicated that it is in the second year of its current agency of record contract which was selected through a public proposal call in 1998.

## Treasury Board Secretariat

## 4.2.14 Controls over Microcomputer Hardware and Software (1998 Annual Report, Part 3.4)

**Introduction**

In 1998, we performed a review of controls over microcomputer hardware and software in three Government departments. The departments of Municipal and Provincial Affairs, Justice, and Human Resources and Employment were selected for review.

Our review indicated that controls over computer hardware and software in the three departments reviewed were not adequate. Conclusions with respect to each of the Departments reviewed were as follows:

*Department of Municipal and Provincial Affairs*

- the Department did not maintain an inventory of its computer hardware and software;
- there was an instance where the same copy of software, authorized for single use only, was found on 4 microcomputers reviewed; and
- there were instances where microcomputer equipment purchased by the Department could not be located.

*Department of Justice*

- although an inventory of computer hardware and software was maintained, it was not adequate;
- there were instances where items of computer software were identified that were not in the inventory records; and
- there were instances of computer software which were not present at the assigned location.

*Department of Human Resources and Employment*

- although an inventory of computer hardware and software was maintained, it was not adequate;
- there were instances where items of computer hardware and software were identified that were not in the inventory records; and

- there were instances where items of computer hardware which were included in inventory could not be located.

As well, there were instances of software on computers for which the departments could not provide proof of ownership. In addition, the departments did not routinely check their computers to ensure that only authorized software was being used.

It was concluded that neither Government nor the three departments reviewed knew the cost of their current investment in computer hardware and software.

It was also indicated that policies over the safeguarding and control of computer hardware and software needed to be improved and communicated to staff.

All three departments commented at the time of the review that they would continue to improve controls over computer hardware and software.

**Update**

The three departments advised us as to the progress made in addressing comments made in our 1998 report.

The Department of Municipal and Provincial Affairs indicated that an inventory of hardware and software is being maintained, but that it was difficult to keep up with changes in the information technology environment with the resources available. It was also noted that budget funding requested by the Department to implement a system to track hardware and software when users log into the Department's network, was not provided by Government. A pilot project was indicated to be underway in the Treasury Board Secretariat which could be used for monitoring hardware and software.

The Department of Justice indicated that it has continued to use its existing software to maintain an inventory of computer hardware and software. In addition, the Information Technology Division has utilized other software to develop several reports to improve its ability to verify the inventory. As well, it was noted that a great deal of work was involved in updating the hardware inventory resulting from replacing the majority of desktop computers and servers as part of the Y2K initiative. The Department advised that with the limited resources available and high demands on staff, the Information Technology Division is continuing its efforts to maintain an up-to-date software inventory.

## Update on Prior Years' Report Items

The Department of Human Resources and Employment indicated that it continues to place importance on the recording and control of computer related assets and that it has been a challenge due to the high number of assets and their replacement as they modernize their technology. The Department advised it has implemented various improvements in record keeping and controls to ensure the effective management of computer assets.

In addition to the three specific departments reviewed, our Office was notified by the Treasury Board Secretariat that an inter-departmental committee has been formed to investigate possible software products that can provide departments with current information regarding microcomputer assets. It was also indicated that many departments have undertaken efforts to update their inventory of hardware and software.

# General Matters and Work of the Audit Office

## 5.1 Operations of the Office of the Auditor General

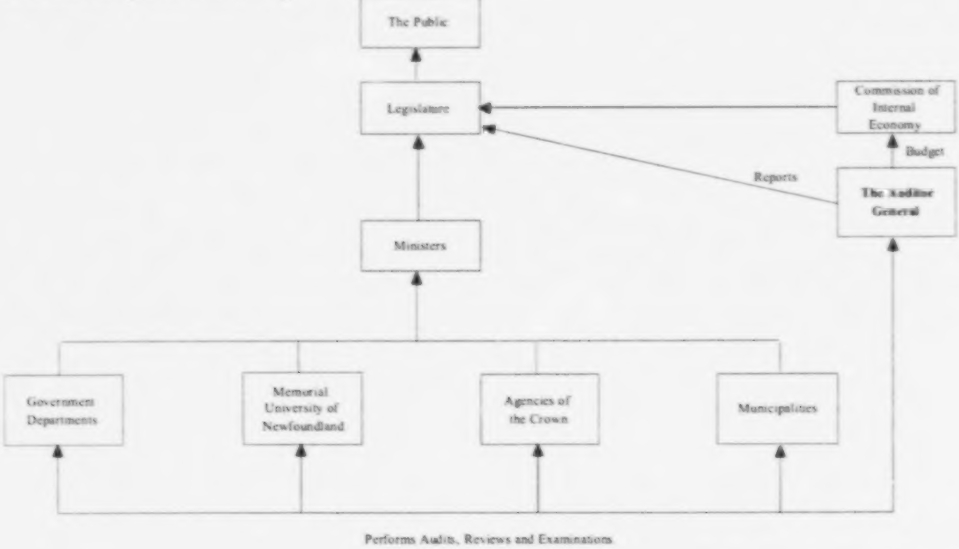
### Mandate and Objectives

The Office of the Auditor General operates under the authority of the *Auditor General Act* which was assented to 31 October 1991. The full text of the *Auditor General Act* is presented as Appendix I to this Report. The Auditor General is appointed for a 10 year non-renewable term as an officer of the House of Assembly and is the independent Legislative Auditor of Government, its departments, all agencies of the Crown and Memorial University of Newfoundland. Implicit in the *Auditor General Act* is the requirement for the Auditor General to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance.

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments, agencies of the Crown, Memorial University of Newfoundland, municipalities, and the House of Assembly, as illustrated in Figure 1.

**Figure 1**

**Office of the Auditor General Accountability Relationship**


The Public
Legislature
Commission of Internal Economy
Budget
Reports
The Auditor General
Ministers
Government Departments
Memorial University of Newfoundland
Agencies of the Crown
Municipalities
Performs Audits, Reviews and Examinations

## General Matters and Work of the Audit Office

### Reports

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown and Crown controlled corporations.

Our process for conducting examinations provides senior officials with an opportunity to meet and discuss the scope and objectives of our work before it commences. Furthermore, every report resulting from our examinations includes our conclusions, findings and recommendations and is reviewed with senior officials before being included in the Annual Report to the House of Assembly. This validation process allows the senior officials the opportunity to provide any new or additional information that may not have been previously provided.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements.

A list of Departmental audits performed by our Office is included as Appendix II of this Report. A list of agencies of the Crown and other entities whose financial statement audits are performed by our Office is included as Appendix III of this Report. A list of agencies of the Crown and other entities whose financial statement audits are performed by private sector auditors is included as Appendix IV of this Report.

Section 12 of the *Auditor General Act* requires the Auditor General to report on:

- the work of the office;
- whether, in carrying out the work of the office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the Act; and
- the results of the examination of the accounts of the Province calling attention to anything the Auditor General considers significant relating to:
    - collections of public money;
    - disbursements of public money;

- instances where accounts have not been faithfully and properly kept;
- instances where assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
- instances where accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
- any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

## Mission and Values

The Office of the Auditor General initiated a strategic planning process in August 1994 and completed its first Strategic Plan in June 1995. The Plan was updated in 1996 and again in 1999 and now focuses on the priorities and initiatives of the Office to 2002. The strategic planning process required the development of an office mission statement and identification of our values as follows:

### Mission Statement

*The Office of the Auditor General serves the House of Assembly by providing independent examinations of Government and its entities.*

*As legislative auditors, we audit financial statements and other accountability documents, evaluate management practices and control systems, and determine compliance with legislative and other authorities.*

*Our purpose is to promote accountability and encourage positive change in the stewardship, management and use of public resources.*

### Values

We believe in independence for our Office, integrity in our conduct and quality in our work. Therefore, we will:

*Maintain our independence and avoid the perception of bias;*

*Strive for excellence in our work and seek continuous improvement in our use of technology, methodology and training;*

*Treat all external parties with courtesy and respect; and*

*Conduct ourselves according to the highest professional standards.*

We believe everyone should be treated with fairness and respect. Therefore, in our Office, all employees:

*Are recognized and valued for contributions;*

*Communicate openly and work together as a team;*

*Receive necessary opportunities for professional and personal growth; and*

*Are accountable for quality performance and encouraged to improve processes.*

## Our Work

The development of our Strategic Plan resulted in the identification of five main lines of business which serve as a means of determining priorities and allocating resources. The Plan also resulted in the establishment of goals that we now use to measure our progress. The five lines of business, related goals and results to date are outlined as follows:

### 1. Financial Statement Audits

A financial statement audit enables the Auditor General to express an opinion as to whether the financial statements present fairly the subject matter with which they deal. The opinion is based on an independent assessment and therefore adds credibility to the information to which it is attached.

**Goal 1.1**

To complete all financial statement audits by the established deadlines.

**Status**

All financial statements presented for audit as required were completed by the established deadlines. There were, however, six entities whose financial statements, because of late submission to our Office, were not completed by the established deadline.

Appendices III and IV indicate the audits completed by the Auditor General and the private sector auditors respectively, their fiscal year ends and the date of the Auditor's Report.

**Goal 1.2**

To assess the time budget for each area of each financial statement audit to determine whether audit procedures can be reduced or eliminated.

### Status

At the conclusion of each financial statement audit, each audit time summary is reviewed in detail and compared with the original time budget. Prior to the commencement of the following year's audit, as part of the planning phase, the time budget is reviewed to determine whether there are areas where the audit time can be reduced. While improvements have been made in this area, we are continuing our efforts in this area.

**Goal 1.3**

To complete all financial statement audits within a 10% variance of budget for time and cost.

### Status

The majority of financial statement audits were completed within a 10% variance of budget for time and cost. Any variations were caused by the particular circumstances associated with the entities being audited.

**Goal 1.4**

To have 100% compliance with professional standards and internal Office policy for all audits.

### Status

All financial statement audits were conducted in accordance with professional standards and internal Office policy.

## 2. Legislative Audits

Legislative audits provide the House of Assembly with an independent professional assessment of public sector accountability, thereby facilitating informed judgements on the manner in which the public sector discharges its responsibilities. Legislative audits may include: evaluation of accountability relationships, management practices and control systems; assessment of compliance with legislation and other authorities; and performance audits of program results compared to established criteria.

## General Matters and Work of the Audit Office

**Goal 2.1**

We will apply our risk based management system to our Office's audit universe each year to select audit projects.

**Status**

The computerized risk based audit management system is used in planning for all audit cycles each year.

**Goal 2.2**

To provide the House of Assembly with an annual accountability document on the Office of the Auditor General.

**Status**

This chapter provides the accountability report on the Office for the 1999-2000 year. This includes the financial statements of the Office and a report on the goals of the Office along with their status at report date.

**Goal 2.3**

To have 80% of our recommendations implemented within 2 years of our report date.

**Status**

In 1996, we established a system to measure the extent to which Government implements our recommendations. It is our intention to monitor and update the recommendations in each Annual Report two years after it has been issued. Monitoring will continue until we are reasonably satisfied that the issues are being adequately addressed or are no longer valid.

Overall for the five years from 1994 to 1998, satisfactory progress has been made on 81% of our recommendations or the recommendations are no longer applicable. The percentages for each year are 1994 (86%), 1995 (89%), 1996 (88%), 1997 (81%) and 1998 (68%).

**Goal 2.4**

To have all reports subjected to quality control criteria and a challenge review process.

### Status

All legislative reports are subject to quality control criteria and a formal challenge review process.

## 3. Monitoring Crown Agency Reports

Our role is to assess all of these entities over an appropriate number of years and to report on their accountability, management practices and control systems, their compliance with legislation, their performance related to established criteria, and any weaknesses or other issues which we feel should be brought to the attention of the House of Assembly.

**Goal 3.1**

To monitor Crown agency financial statements and other reports throughout the year using a computerized database to maintain the results.

### Status

We have developed and are using a database system to maintain the financial statements, reports and other information of all agencies of the Crown.

**Goal 3.2**

To report on the monitoring of Crown agency financial statements and other reports to the House of Assembly on an annual basis.

### Status

Part 3.1 of this Report contains the results of this work for the 1999-2000 year.

## 4. Special Assignments

Under section 16 of the *Auditor General Act*, the Auditor General may accept assignments from the House of Assembly, the Public Accounts Committee and the Lieutenant-Governor in Council. The results of these assignments are reported to the body making the request.

**Goal 4.1**

To perform and report on special assignments whenever requested by the House of Assembly, Public Accounts Committee or the Lieutenant-Governor in Council.

### Status

While we have completed a number of special assignments in recent years, there were no special assignments during the 1999-2000 fiscal year.

**Goal 4.2**

To report on all special assignments conducted within six months of beginning our work.

### Status

There were no special assignments during the 1999-2000 fiscal year.

**Goal 4.3**

To subject all special assignment reports to quality control criteria and a challenge review process.

### Status

While there have been no special assignments during the 1999-2000 fiscal year, our quality control and challenge review process requires that all audits, reviews, or assignments be subject to quality control criteria and a formal challenge review process.

## 5. Reporting

The *Auditor General Act* requires that we report, at least annually, to the House of Assembly on the results of our examination of the Province's financial statements and on the results of any audits, examinations or inquiries which we have performed. In addition, when we have completed a financial statement audit, we attach our auditor's report to the financial statements and issue a management letter to the entity examined. When we perform a legislative audit, we issue a management report which includes the entity's response to any comments made.

**Goal 5.1**

To report on legislative audits in November of each year. To report on the financial statements of the Province and the monitoring of Crown agencies each November.

## General Matters and Work of the Audit Office

### Status

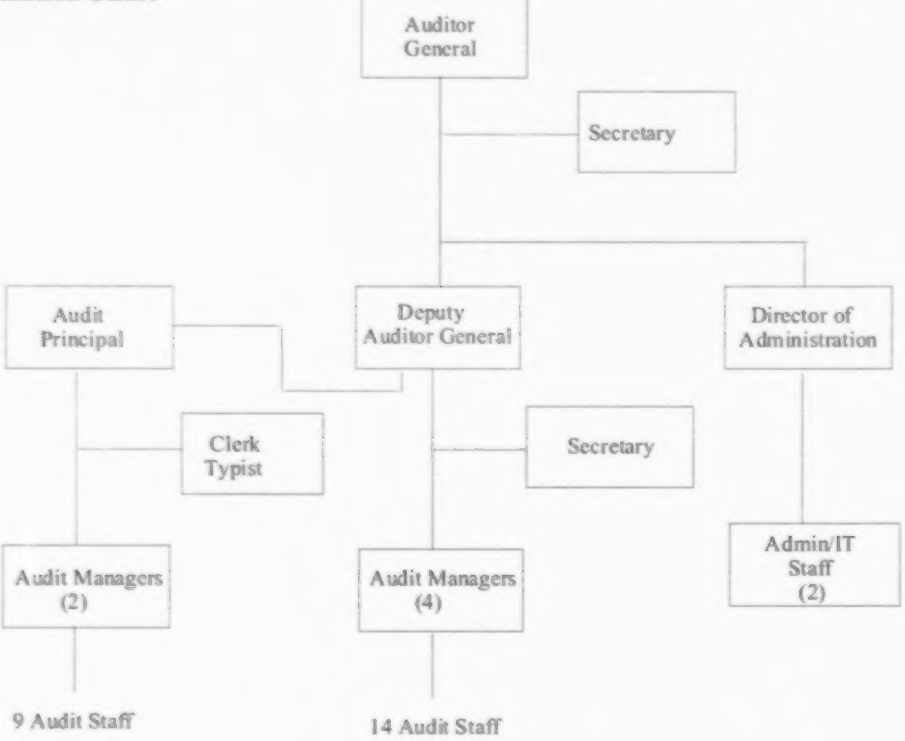
When the House of Assembly adjourned on 14 December 1999 our 1999 Report had not been presented to the Speaker for tabling in the House of Assembly. It was presented to the Speaker on 31 January 2000 and tabled in the House of Assembly on 21 March 2000. This Report and my Report on the Audit of the Financial Statements of the Province which accompanies it contain our comments on legislative audits and the audit of the financial statements of the Province for the year ended 31 March 1999.

## Organization

Our employees are our most valuable resource because it is their knowledge and skill that determine the quality of the work that is performed. The Office is organized to allow for the efficient and effective deployment of staff and to support our work. The organizational structure of the Office is outlined in Figure 2.

**Figure 2**

**Office of the Auditor General Organization Chart**


Auditor General
Secretary
Audit Principal
Deputy Auditor General
Director of Administration
Clerk Typist
Secretary
Audit Managers (2)
Audit Managers (4)
Admin/IT Staff (2)
9 Audit Staff
14 Audit Staff

There are three support services in the Office with the following responsibilities:

*Administration* - provides strategic and policy advice on human resource management, financial management and report publishing initiatives. At the operational level, this area also provides such services as recruitment, payroll, secretarial support, file registry and purchasing.

*Professional Practice* - provides technical advice on accounting and auditing policy and practice matters. This area reviews current and emerging accounting and auditing issues within the public sector and provides comments to professional bodies and central agencies.

*Information Technology* - provides consultation and technical support on all matters dealing with information technology. This area is responsible for implementation of the Office's information technology strategic plan. It also monitors technological developments relevant to the Office, provides ongoing operational support and assists in training activities.

The Office had 38 employees as of 30 November 2000, 33 in the St. John's Office and 5 in the Corner Brook Office. Of the 38 employees, 26 have professional accounting designations and 6 are in the process of completing their professional accounting program. Figure 3 indicates the Auditor General and the staff of the Office as at 30 November 2000.

**Figure 3**

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**Office Staff**
**30 November 2000**

Kevin Antle CGA
Paul Burggraaf
Keith Butt CA
John Casey CMA
Rosemarie Crann
Gertrude Critch
Lisa Crowley CA
Tony Dingwell CA
Bill Drover FCA
Virginia English CGA
James Foran
Gregg Griffin
Kerry Griffiths CA
Claude Janes CA
Scott Jones
Brenda Kavanagh
Lynn Kendall CGA
Nancy King
Michelle Letto
Wayne Loveys CMA
James Mallard CGA
Elizabeth Marshall CA
Trevor McCormick CGA
Julia Mullaley CA
Bill Noftall
John Noseworthy CA
Steve Pearce CA
Tracy Pelley CMA
Deann Penney
David Ralph CA
Tony Roestenberg CA
Sandra Russell CA
Denise Tubrett CGA
Paul Tucker CMA
Scott Walters CA
David White FCGA
Jim Winsor CMA
Tony Wiseman

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## Professional Development and Training

A program of ongoing training and professional development of staff is essential to ensure that staff keep current with new auditing techniques used in the profession. This program consists of on-the-job training, external and in-house courses, and seminars.

We continue to encourage our staff to pursue and complete programs of study which enable them to obtain professional accounting designations. We are pleased to note that during the year the following members of our staff obtained their professional accounting designation.

- Virginia English, CGA
- Kerry Griffiths, CA
- Steve Pearce, CA
- Paul Tucker, CMA

We wish continued success to the six members of our staff who are now studying towards a professional accounting designation.

## Financial Statements

The gross expenditures of the Office totalling $2,007,158 for the year ended 31 March 2000 were within the limits of the approved budget. The following is the financial information for the Office which is included as part of the Public Accounts of the Province.

### OFFICE OF THE AUDITOR GENERAL
### PROVINCE OF NEWFOUNDLAND
### SCHEDULE OF ASSETS AND LIABILITIES
### 31 MARCH 2000

| | 2000 | 1999 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Audit fees billed and in progress | $ 59,695 | $ 103,362 |
| Travel imprests | 1,200 | 1,200 |
| Accountable advance | 200 | 200 |
| | $ 61,095 | $ 104,762 |
| **LIABILITIES** | | |
| **Current** | | |
| Accrued leave | $273,641 | $247,432 |
| Vouchers/HST payable | 7,786 | 13,803 |
| Accrued payroll | 18,520 | 5,995 |
| Accrued severance pay | 363,261 | 338,721 |
| | $663,208 | $605,951 |

***See accompanying notes***

## OFFICE OF THE AUDITOR GENERAL
## PROVINCE OF NEWFOUNDLAND
### SCHEDULE OF EXPENDITURE AND RELATED REVENUE
### FOR THE YEAR ENDED 31 MARCH 2000

| | | Estimates | |
|---|---|---|---|
| | Actual | Amended | Original |
| **EXECUTIVE SUPPORT** | | | |
| Salaries | **$114,187** | $114,250 | $114,800 |
| Salaries (Statutory) | **96,755** | 96,850 | 97,300 |
| Employee Benefits | **1,821** | 1,900 | 4,800 |
| Transportation & Communication | **16,729** | 16,800 | 17,000 |
| Professional Services | **7,308** | 7,400 | 16,500 |
| Purchased Services | **535** | 700 | 700 |
| | **237,335** | 237,900 | 251,100 |
| **ADMINISTRATIVE SUPPORT** | | | |
| Salaries | **171,592** | 171,900 | 173,800 |
| Employee Benefits | **214** | 300 | 3,400 |
| Transportation & Communication | **30,293** | 30,500 | 28,200 |
| Supplies | **15,616** | 16,250 | 17,100 |
| Purchased Services | **155,033** | 155,550 | 147,300 |
| Property, Furnishings & Equipment | **3,073** | 3,100 | 3,000 |
| Grants and Subsidies | **8,200** | 8,500 | 8,500 |
| | **384,021** | 386,100 | 381,300 |
| **AUDIT OPERATIONS** | | | |
| Salaries | **1,250,718** | 1,250,900 | 1,218,000 |
| Employee Benefits | **8,004** | 8,100 | 10,000 |
| Transportation & Communications | **47,178** | 48,500 | 64,500 |
| Professional Services | **13,368** | 13,400 | 15,000 |
| Information Technology | **66,534** | 69,100 | 74,100 |
| | **1,385,802** | 1,390,000 | 1,381,600 |
| Revenue - Provincial | **(186,063)** | (157,800) | (157,800) |
| | **1,199,739** | 1,232,200 | 1,223,800 |
| **Net Expenditure** | **$1,821,095** | $1,856,200 | $1,856,200 |

***See accompanying notes***

## OFFICE OF THE AUDITOR GENERAL
## PROVINCE OF NEWFOUNDLAND
### STATEMENT OF GROSS EXPENDITURE AND UNEXPENDED BALANCES
### FOR THE YEAR ENDED 31 MARCH 2000

| | |
|---|---|
| Original estimates (net) | $1,856,200 |
| Add back revenue estimates net of transfers and statutory payments | 60,500 |
| Original estimates of expenditure | 1,916,700 |
| Supplementary supply | - |
| Total appropriation | 1,916,700 |
| Total net expenditure | 1,821,095 |
| Add revenue less transfers and statutory payments | 89,308 |
| Total gross expenditure (budgetary, non-statutory) | 1,910,403 |
| Unexpended balances of appropriation | $ 6,297 |

### Summary of Cash Payments and Receipts

| | Payments | Receipts | Net |
|---|---|---|---|
| Current Account | $2,007,158 | $ 186,063 | $1,821,095 |

*See accompanying notes*

**OFFICE OF THE AUDITOR GENERAL**
**PROVINCE OF NEWFOUNDLAND**
NOTES TO FINANCIAL INFORMATION
31 MARCH 2000

## Authority

Section 3 of the *Auditor General Act* provides for the establishment of a department of the public service of the province called the Office of the Auditor General. This Act was assented to on 31 October 1991.

## 1. Significant accounting policies

This financial information has been prepared by the Office of the Auditor General on a cash basis of accounting modified in accordance with the *Financial Administration Act*. Outlined below are the significant policies followed:

(a) Revenues

Revenues are recorded when actually received.

(b) Expenditures

Expenditures are recorded when actually paid except that liabilities incurred for the financial year ended 31 March, invoices for which are received by the Comptroller General by 30 April, are recorded as if they were paid by 31 March.

(c) Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland. Direct liabilities and convertible assets such as amounts receivable are reported in the Schedule of Assets and Liabilities.

(d) Inventories

Inventories are not considered to be convertible and therefore are not valued in the Schedule of Assets and Liabilities. They are charged as budgetary expenditures and are expensed in the year they are acquired.

**OFFICE OF THE AUDITOR GENERAL**
**PROVINCE OF NEWFOUNDLAND**
NOTES TO FINANCIAL INFORMATION
31 MARCH 2000

## 1. Significant accounting policies (cont.)

(e) Operating expenses

The employer's portion of government personnel costs is paid by the Department of Finance and is not reflected in this financial information.

(f) Fixed assets

Fixed asset acquisitions are charged as budgetary expenditures and are expensed in the year they are acquired. The assets are not considered to be convertible and therefore are not capitalized and are not valued on the Schedule of Assets and Liabilities.

(g) Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

## 2. Pensions

Under the *Auditor General Act*, all persons employed in the Office of the Auditor General are employees for the purposes of the *Public Service Pensions Act, 1991*, and are entitled to all the benefits under that Act. No pension expenditure has been recorded in this financial information.

# General Matters and Work of the Audit Office

## Appendix I

### *Auditor General Act*

1. This Act may be cited as the *Auditor General Act*.

2. (1) In this Act

(a) "agency of the Crown" means an authority, board, commission, foundation, agency, corporation, association, institute or other body of persons, whether incorporated or unincorporated, 50% or more of the members of which or 50% or more of the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by the Lieutenant-Governor in Council, or

(ii) where not so appointed, in the discharge of their duties are public officers or servants of the Crown or are responsible to the Crown for the proper discharge of their duties;

(b) "audit" means an audit or examination of accounts of public money that may be made by the auditor general under this Act;

(c) "auditor general" means the Auditor General of Newfoundland appointed under section 4;

(d) "commission" means the Commission of Internal Economy of the House of Assembly appointed under the authority of *The Internal Economy Commission Act*;

(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having

(i) 50% or more of its issued and outstanding shares vested in the Crown or in the name of a minister of the Crown, or

(ii) the appointment of a majority of its board of directors made or approved by the Lieutenant-Governor in Council;

(f) "office" means the Office of the Auditor General established under section 3; and

(g) "public money" means all money received, held or collected for or on behalf of the province by a minister of the Crown or other public officer in his or her official capacity or by a person authorized to receive, hold or collect that money, and includes

(i) all revenues of the province,

(ii) money borrowed by the province or received through the issue and sale of securities, and

(iii) money paid to the province for a special purpose.

## Appendix I

(2) Words and expressions used in this Act and not defined in subsection (1) have the same meaning as in *The Financial Administration Act, 1973*.

3. There is established a department of the public service of the province called the Office of the Auditor General, over which the auditor general shall preside.

4. (1) The Lieutenant-Governor in Council shall, by commission under the Great Seal of the province, appoint a qualified auditor to be the officer called the Auditor General of Newfoundland.

(2) The person appointed to the position of auditor general under this section must be confirmed in office as auditor general by the introduction in the House of Assembly of a resolution within 10 days after his or her appointment and if the House of Assembly is not sitting within 10 days after the commencement of the next ensuing Session of the House of Assembly or within 10 days after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(3) The auditor general is by virtue of his or her position an officer of the House of Assembly.

5. (1) The auditor general holds office for a term of 10 years but may be removed for cause by the Lieutenant-Governor in Council following the passing by the House of Assembly of a resolution requesting the Lieutenant-Governor in Council to do so.

(2) Once having served as auditor general, a person is not eligible for reappointment to that office.

6. In the event of the absence or incapacity of the auditor general or where the Office of Auditor General is vacant, the Lieutenant-Governor in Council may appoint a person temporarily to perform the duties of the auditor general.

7. The auditor general shall be paid a salary out of the Consolidated Revenue Fund at a rate set by the Lieutenant-Governor in Council and is entitled to the privileges of office of a deputy minister.

8. The auditor general shall not hold an office of profit or shall not act as trustee for profit for another person, other than his or her office as auditor general or engage in an occupation for reward outside the duties of his or her office.

9. (1) Before entering upon his or her duties, the auditor general shall

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act*; and

(b) take or make and sign the following oath or affirmation of office:

"I, .........., do solemnly swear (or solemnly, sincerely and truly declare and affirm) that I will faithfully, truly, impartially, honestly, justly and to the best of my judgment, skill and ability, execute and perform the powers, duties and functions reposed in or required of me as auditor general under the *Auditor General Act* or another Act and that I will observe and comply with the laws of Canada and Newfoundland." (Where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1)shall be administered by the Speaker or by the Clerk of the House of Assembly.

10. The auditor general is the auditor of the financial statements and accounts of the province and shall make those examinations and inquiries that the auditor general considers necessary to enable him or her to report as required by this Act.

11. The auditor general shall examine the several financial statements required by *The Financial Administration Act, 1973* to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.

12. (1) The auditor general shall as he or she considers necessary but at least annually report to the House of Assembly on

(a) the work of the office;

(b) whether, in carrying out the work of the office, the auditor general received all the information including reports and explanations the auditor general required;

(c) the results of the auditor general's examination of the financial statements referred to in section 11; and

(d) audits, examinations and inquiries performed under this Act.

(2) A report of the auditor general under subsection (1) shall include the results of the auditor general's examination of the accounts of the province, and shall call attention to anything the auditor general considers significant, including instances where

(a) collections of public money

(i) have not been effected as required under various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts;

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements,

(iii) have not been properly reflected in the accounts, or

(iv) have not been made for the purposes for which it was appropriated;

(c) accounts have not been faithfully and properly kept;

(d) assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;

(e) accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; or

(f) factors or circumstances relating to an expenditure of public money which in the opinion of the auditor general should be brought to the attention of the House of Assembly.

(3) Paragraph (2)(f) shall not be construed as entitling the auditor general to question the merits of policy objectives of the government.

13. (1) Each report of the auditor general referred to in section 12 shall be submitted to the Speaker of the House of Assembly and the Speaker shall table each report before the House of Assembly immediately after receipt of the report by him or her or, where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or on the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

(2) The annual report of the auditor general shall be submitted on or before January 31 following the close of the fiscal year to which the report relates.

14. (1) Where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the auditor general shall be the auditor.

(2) Where the auditor of an agency of the Crown or of a Crown controlled corporation is other than the auditor general, the auditor shall

(a) deliver to the auditor general after completion of the audit a copy of the auditor's report, his or her recommendations to management and a copy of the audited financial statements of the corporation or agency;

(b) make available immediately to the auditor general, when so requested by the auditor general, all working papers, reports, schedules and other documents in respect of the audit; and

(c) provide immediately to the auditor general, when so requested by the auditor general, a full explanation of work performed, tests and examinations made and the results obtained, and other information relating to the audit within the knowledge of that auditor in respect of the agency or corporation.

## Appendix I

(3) Where the auditor general is of the opinion that the information, explanation or document that is provided, made available or delivered to the auditor general by the auditor referred to in subsection (2) is insufficient to permit the auditor general to exercise his or her powers or duties under this Act, the auditor general may conduct or cause to be conducted an additional examination and investigation of the records and operations of the agency of the Crown or the Crown controlled corporation that the auditor general considers necessary.

15. (1) Where during the course of an audit, the auditor general becomes aware of an improper retention or misappropriation of public money or another activity that may constitute an offence under the *Criminal Code* or another Act, the auditor general shall immediately report the improper retention or misappropriation of public money or other activity to the Lieutenant-Governor in Council.

(2) In addition to reporting to the Lieutenant-Governor in Council under subsection (1), the auditor general shall attach to his or her annual report to the House of Assembly a list containing a general description of the incidents referred to in subsection (1) and the dates on which those incidents were reported to the Lieutenant-Governor in Council.

16. (1) The auditor general may, where in his or her opinion such an assignment does not interfere with the auditor general's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.

(2) Where the auditor general makes a report in accordance with subsection (1), the auditor general shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

17. Except as provided by another Act that expressly refers to this section, every department of government, every agency of the Crown and every Crown controlled corporation shall furnish the auditor general with information regarding its power, duties, activities, organization, financial transactions and methods of business as the auditor general requires, and the auditor general shall be given access to all books, accounts, financial records, reports, electronic data processing records, explanations, files and all other papers, things or property belonging to or in use by the department, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the auditor general under this Act.

18. (1) The auditor general may examine a person on oath or affirmation on a matter pertinent to an account submitted to the auditor general for audit and the oath or affirmation may be administered by the auditor general to a person whom the auditor general desires to examine.

(2) In order to compel the attendance of a person under subsection(1), the auditor general may apply to a judge of the Trial Division for an order that a subpoena be issued from the court commanding the person named in the subpoena to appear before the auditor general at the time and place mentioned in the subpoena, and then and there to testify to all matters within that person's knowledge relative to an account submitted to the auditor general.

(3) Where so required, the person named in the subpoena shall produce a document, paper or thing which he or she has possession of relative to the account.

(4) A person named in a subpoena issued under this section is entitled to reasonable expenses at the time of the service.

19. Notwithstanding sections 17 and 18, the auditor general shall not be permitted access to reports arising out of the conduct of lawful police investigations or to information in the records listed in paragraphs 9(1)(b) to (f) of *The Freedom of Information Act* except for the information in the records disclosed under subsection 9(2) of that Act.

20. The auditor general may station in the offices of a department, agency of the Crown or Crown controlled corporation, an employee of the office for the purpose of enabling the auditor general to more effectively exercise or perform his or her powers and duties under this or another Act, and the department, agency of the Crown or Crown controlled corporation shall provide the necessary office accommodation and facilities for employees so stationed.

21. The auditor general and each person employed in the office or appointed or engaged to assist the auditor general for a limited period of time or in respect of a particular matter under section 28 shall keep confidential all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate those matters to another person, except as may be required in connection with the discharge of his or her responsibilities under this Act or under the *Criminal Code*.

22. Audit working papers of the office shall not be laid before the House of Assembly or a committee of the House of Assembly.

23. (1) Those auditors and employees that are necessary to enable the auditor general to perform his or her duties under this or another Act shall be appointed or employed in the manner authorized by law and are members of the public service of the province.

(2) The personnel management policies of the Treasury Board as they relate to the public service of the province apply to the office.

(3) *The Conflict of Interest Act, 1973* applies to the auditor general and every person employed in the office.

24. (1) Every person employed in the office, shall, before performing a duty as an employee in the office

(a) take or make and sign the Oath or Affirmation of Allegiance under *The Oaths of Office Act;* and

(b) take or make and sign the following oath or affirmation of office:

"I .........., do swear (or solemnly, sincerely and truly, declare and affirm) that I will faithfully, honestly and impartially to the best of my knowledge, skill and ability perform my duties as an employee in the Office of the Auditor General and that I will observe and comply with the laws of Canada and Newfoundland and except as I may be legally required, I will not disclose or give to a person information or a document that comes to my knowledge or possession by reason of my being an employee in the Office of the Auditor General." (In the case where an oath is taken add "So help me God").

(2) The oaths or affirmations referred to in subsection (1) shall be administered by the auditor general or his or her designate.

(3) The auditor general may require a person or class of persons appointed to assist the auditor general for a temporary period of time or in respect of a particular matter under section 28 to take or make and subscribe the oaths or affirmations referred to in subsection (1).

(4) A copy of each oath or affirmation administered to an employee of the office under subsection (1) shall be kept in the files of the office.

(5) The refusal of an employee of the office to take or make and subscribe to the oaths or affirmations or the failure to adhere to the oaths or affirmations required by subsection (1) may be considered as cause for dismissal.

25. (1) All persons employed in the office are employees for the purposes of the *Public Service Pensions Act, 1991* and are entitled to all the benefits under that Act.

(2) Notwithstanding subsection (1), the LieutenantGovernor in Council may by order permit the auditor general to participate in the *Public Service Pensions Act, 1991* or may by order stipulate other pension arrangements for the auditor general upon his or her appointment under this Act.

26. The auditor general may delegate in writing to an employee of the office authority to exercise a power or perform a duty of the auditor general other than reporting to the House of Assembly.

27. The auditor general may appoint an employee of the office as acting auditor general while the auditor general is absent from the province.

28. The auditor general may engage, on a fee basis, a person to act as his or her agent for the purpose of conducting an audit or examination that the auditor general is empowered to conduct or to perform a service that the auditor general considers necessary for a purpose related to the exercise or performance of the auditor general's powers and duties under this or another Act.

29. The auditor general, persons employed in the office and those persons employed or engaged by the auditor general under the authority of section 28 are not liable in a proceeding for an act done or not done or for a statement or report made by them in good faith in connection with a matter they are authorized or required to do under this Act.

30. Subject to *The Public Tender Act, 1984*, the auditor general may engage within the limits of the appropriation approved by the Legislature for his or her office and without the approval of the Treasury Board the professional services, including counsel, consultants, accountants and other experts and acquire goods that the auditor general considers necessary for a purpose related to the exercise or performance of his or her powers and duties under this or another Act.

31. Where the auditor general

(a) considers it necessary to report for the information of the Lieutenant-Governor in Council; or

(b) is required to report to the Lieutenant-Governor in Council for the purposes of this Act, especially in respect of a matter relating to the office,

the report is made through the Minister of Finance.

32. (1) The Commission shall appoint a qualified auditor to audit annually the office.

(2) The auditor appointed under subsection (1), has the same powers and shall perform the same duties in relation to an audit of the office that the auditor general has or performs in relation to an audit performed under this Act.

(3) The auditor appointed under subsection (1) shall submit his or her report to the commission and send a copy to the auditor general.

(4) The Speaker of the House of Assembly shall table the report of the auditor under this section before the House of Assembly immediately after receiving the report by him or her or where the House of Assembly is not then in Session, on the 1st day of the commencement of the next ensuing Session of the House of Assembly or the 1st day after the House of Assembly resumes sitting following an adjournment of the House of Assembly.

33. (1) The auditor general shall submit annually to the commission for its approval estimates of the sums that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the office under this Act during the next ensuing fiscal year.

(2) The commission shall review and may alter as it considers proper the estimates submitted under subsection (1) and, upon completion of the review, the Speaker of the House of Assembly shall submit the estimates as approved by the commission to the House of Assembly for the purpose of inclusion in the estimates of the province for approval by the Legislature.

34. (1) Where the auditor general conducts examinations or audits an agency of the Crown or Crown controlled corporation, the auditor general may charge fees for professional services rendered by his or her office.

(2) The fees referred to in subsection (1) shall be established on a basis that may be approved by the Lieutenant-Governor in Council.

(3) The fees charged and collected by the auditor general under this section shall be paid into the Consolidated Revenue Fund.

35. (1) Persons in the employ of the Department of the Auditor General at the commencement of this Act are considered to have been appointed in accordance with this Act.

(2) Upon the commencement of this Act, the Department of the Auditor General is considered to be and is continued in the name of the Office of the Auditor General under this Act.

(3) A reference in another Act to the auditor general appointed under *The Financial Administration Act, 1973* or a reference in another Act to the auditor general shall be considered to be a reference to the auditor general appointed under this Act.

36. (1) Paragraph 2(a) of *The Financial Administration Act, 1973* is repealed and the following substituted:

"(a) "auditor general" means the Auditor General of Newfoundland appointed under the *Auditor General Act* and includes all employees acting under the auditor general's direction;".

(2) Sections 58 to 71 of the Act are repealed.

(3) Subsection 83(1) of the Act is amended by striking out the words "and the Auditor General" and the words "or the Auditor General".

## Appendix II

# Departmental Audits Performed by the Office of the Auditor General

## General Government Sector

Consolidated Fund Services

Executive Council

Finance

Government Services and Lands

Legislature

Public Service Commission

Works, Services and Transportation

## Resource Sector

Development and Rural Renewal

Environment and Labour

Fisheries and Aquaculture

Forest Resources and Agrifoods

Industry, Trade and Technology

Mines and Energy

Tourism, Culture and Recreation

## Social Sector

Education

Health and Community Services

Human Resources and Employment

Justice

Municipal and Provincial Affairs

Newfoundland and Labrador Housing Corporation

## Appendix III

### Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

| Entity | Year End | Auditors Report |
|---|---|---|
| **Department of Development and Rural Renewal** | | |
| Enterprise Newfoundland and Labrador | 31 March 2000 | 21 July 2000 |
| Farm Development Loan Board | 31 March 2000 | 25 July 2000 |
| Fisheries Loan Board of Newfoundland | 31 March 2000 | Not completed |
| **Department of Education** | | |
| Newfoundland and Labrador Education Investment Corporation | 31 March 2000 | 22 June 2000 |
| Private Training Corporation | 31 December 2000 | Not applicable |
| Provincial Information and Library Resources Board | 31 March 2000 | 14 June 2000 |
| **Executive Council** | | |
| Advisory Council on the Economy | 31 March 2000 | 19 June 2000 |
| Labrador Transportation Initiative Fund | 31 March 2000 | 31 May 2000 |
| Provincial Advisory Council on the Status of Women | 31 March 2000 | 25 May 2000 |
| **Department of Finance** | | |
| Hotel Buildings Limited | 31 March 2000 | 2 June 2000 |
| Newfoundland Government Fund Limited | 31 December 1999 | 31 March 2000 |
| Newfoundland Government Sinking Fund | 31 March 2000 | 14 June 2000 |
| Newfoundland Industrial Development Corporation | 31 March 2000 | 7 June 2000 |
| Newfoundland Municipal Financing Corporation | 31 March 2000 | 28 June 2000 |
| Province of Newfoundland Pooled Pension Fund | 31 December 1999 | 6 March 2000 |
| **Department of Forest Resources and Agrifoods** | | |
| Livestock Owners Compensation Board | 31 March 2000 | 2 June 2000 |
| Newfoundland Crop Insurance Agency | 31 March 2000 | 9 June 2000 |
| **Department of Government Services and Lands** | | |
| Public Accountants' Licensing Board | 31 December 1999 | 12 May 2000 |

## Appendix III

## Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by the Office of the Auditor General

| Entity | Year End | Auditors Report |
|---|---|---|
| **Department of Health and Community Services** | | |
| Newfoundland Medical Care Commission | 31 March 2000 | 27 June 2000 |
| **Department of Industry, Trade and Technology** | | |
| Bull Arm Site Corporation | 31 March 2000 | 22 June 2000 |
| **Department of Justice** | | |
| Director of Support Enforcement | 31 March 2000 | 12 July 2000 |
| Newfoundland Legal Aid Commission | 31 March 2000 | 30 June 2000 |
| Office of the High Sheriff | 31 March 2000 | 19 May 2000 |
| Registrar of the Supreme Court of Newfoundland | 31 March 2000 | 9 June 2000 |
| **Department of Municipal and Provincial Affairs** | | |
| Newfoundland and Labrador Housing Corporation | 31 March 2000 | 30 June 2000 |
| **Department of Tourism, Culture and Recreation** | | |
| Heritage Foundation of Newfoundland and Labrador | 31 March 2000 | 27 June 2000 |
| John Cabot (1997) 500th Anniversary Corporation | 31 March 2000 | 21 June 2000 |
| Newfoundland and Labrador Arts Council | 31 March 2000 | 21 June 2000 |
| Newfoundland and Labrador Heritage Corporation | 31 March 2000 | 29 August 2000 |
| Special Celebrations Corporation of Newfoundland and Labrador Inc. | 31 March 2000 | 2 June 2000 |
| **Department of Works, Services and Transportation** | | |
| C.A. Pippy Park Commission | 31 March 2000 | 2 June 2000 |

## Appendix IV

## Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

| Entity | Year End | Auditors Report |
|---|---|---|
| **Department of Development and Rural Renewal** | | |
| Newfoundland and Labrador Film Development Corporation | 31 March 2000 | 18 May 2000 |
| **Department of Education** | | |
| Literacy Development Council of Newfoundland and Labrador | 31 March 2000 | 20 July 2000 |
| Memorial University of Newfoundland | 31 March 2000 | 19 May 2000 |
| Memorial University of Newfoundland Pension Plan | 31 March 2000 | 19 May 2000 |
| The College of the North Atlantic | 31 March 2000 | 16 June 2000 |
| **School Boards** | | |
| Conseil Scolaire Francophone Provincial de Terre - Neuve et du Labrador | 30 June 1999 | 6 October 1999 |
| District #1 - Labrador | 30 June 1999 | 30 July 1999 |
| District #2 - Northern Peninsula/Labrador South | 30 June 1999 | 6 October 1999 |
| District #3 - Corner Brook/Deer Lake/St. Barbe | 30 June 1999 | 28 September 1999 |
| District #4 - Cormack Trail | 30 June 1999 | 13 October 1999 |
| District #5 - Baie Verte/Central/Connaigre | 30 June 1999 | 19 September 1999 |
| District #6 - Lewisporte/Gander | 30 June 1999 | 14 October 1999 |
| District #7 - Burin | 30 June 1999 | 10 December 1999 |
| District #8 - Vista | 30 June 1999 | 25 September 1999 |
| District #9 - Avalon West | 30 June 1999 | 23 November 1999 |
| District #10 - Avalon East | 30 June 1999 | 15 October 1999 |
| **Department of Environment and Labour** | | |
| Multi-Materials Stewardship Board | 31 March 2000 | 8 May 2000 |
| Multi-Material Stewardship Board Waste Management Trust Fund | 31 March 2000 | 8 May 2000 |
| Workplace Health, Safety and Compensation Commission | 31 December 1999 | 23 March 2000 |

## Appendix IV

## Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

| Entity | Year End | Auditors Report |
|---|---|---|
| **Department of Finance** | | |
| Marble Mountain Development Corporation | 30 April 2000 | 9 June 2000 |
| Marble Mountain Management Corporation | 30 April 2000 | 9 June 2000 |
| Newfoundland Liquor Corporation | 31 March 2000 | 21 July 2000 |
| **Department of Forest Resources and Agrifoods** | | |
| Newfoundland Farm Products Corporation | 31 March 2000 | 22 June 2000 |
| **Department of Government Services and Lands** | | |
| Board of Commissioners of Public Utilities | 31 March 2000 | 7 June 2000 |
| Credit Union Deposit Guarantee Corporation | 31 December 1999 | 11 February 2000 |
| **Department of Health and Community Services** | | |
| Newfoundland and Labrador Centre for Health Information | 31 March 2000 | Not received |
| Newfoundland Cancer Treatment and Research Foundation | 31 March 2000 | 5 June 2000 |
| Provincial Genetics Program | 31 December 1999 | 16 June 2000 |
| Provincial Perinatal Program | 31 March 2000 | 16 June 2000 |
| Public Health Laboratory | 31 March 2000 | 16 July 2000 |
| **Community Health Boards** | | |
| Central Regional Health and Community Services Board | 31 March 2000 | 30 June 2000 |
| Eastern Regional Health and Community Services Board | 31 March 2000 | 13 June 2000 |
| St. John's Regional Health and Community Services Board | 31 March 2000 | 15 June 2000 |
| Western Regional Health and Community Services Board | 31 March 2000 | 13 June 2000 |

## Appendix IV

## Agencies of the Crown and Other Entities Whose Financial Statement Audits are Performed by Private Sector Auditors

| Entity | Year End | Auditors Report |
|---|---|---|
| **Department of Health (cont'd)** | | |
| **Regional Hospital Boards** | | |
| Avalon Health Care Institutions Board | 31 March 2000 | 14 August 2000 |
| Central East Health Care Institutions Board | 31 March 2000 | 27 June 2000 |
| Central West Health Corporation | 31 March 2000 | 29 June 2000 |
| Grenfell Regional Health Services Board | 31 March 2000 | 2 June 2000 |
| Health Care Corporation of St. John's | 31 March 2000 | 16 June 2000 |
| Health Labrador Corporation | 31 March 2000 | Not received |
| Peninsulas Health Care Corporation | 31 March 2000 | 14 August 2000 |
| Western Health Care Corporation | 31 March 2000 | 18 June 2000 |
| **Nursing Homes** | | |
| Pentecostal Assemblies - Clarke's Beach Senior Citizens Home | 31 March 2000 | Not received |
| St. John's Nursing Home Board | 31 March 2000 | 27 July 2000 |
| **Department of Industry, Trade and Technology** | | |
| Newfoundland Hardwoods Limited | 31 March 2000 | 19 June 2000 |
| Newfoundland Ocean Enterprises Limited | 31 March 2000 | Not received |
| Operation ONLINE Inc. | 31 March 2000 | Not received |
| **Department of Mines and Energy** | | |
| Churchill Falls (Labrador) Corporation Limited | 31 December 1999 | 11 February 2000 |
| Gull Island Power Company Limited | 31 December 1999 | 4 February 2000 |
| Lower Churchill Development Corporation Limited | 31 December 1999 | 4 February 2000 |
| Newfoundland and Labrador Hydro Electric Corporation | 31 December 1999 | 18 February 2000 |
| Twin Falls Power Corporation Limited | 31 December 1999 | 4 February 2000 |
| **Department of Municipal and Provincial Affairs** | | |
| Municipal Assessment Agency Inc. | 31 March 2000 | 30 June 2000 |